

AGRICULTURAL AND RURAL COMMUNITY ISSUES

HEARING BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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MARCH 24, 2001
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HEARING ON AGRICULTURAL AND RURAL COMMUNITY ISSUES

SATURDAY, MARCH 24, 2001, LEWIS, IOWA

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The hearing was held, pursuant to notice, at 9 a.m., at the Wallace Foundation Learning Center, Lewis, Iowa, Senator Tom Harkin, ranking member on the committee, presiding.

Present or submitting a statement: Hon. Tom Harkin.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, RANKING MEMBER, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Senator HARKIN. Thank you very much. The meeting of the U.S. Senate Committee on Agriculture, Nutrition, and Forestry will come to order.

I thank you all for being here. I apologize for being just a little bit late, a little bit of headwinds out there this morning.

This field hearing on agriculture and rural community issues at the Wallace Foundation Learning Center is the first in a series of hearings that we will be having here in Iowa, in the Midwest, and other parts of the country, in order to get ready for the rewrite of the Farm bill, which expires next year.

Some of the work will be done this year. We will be having hearings, getting input, advice and suggestions from different commodity groups and individuals around the country. There was some thought that we might do a farm bill this year, but I do not think that will happen.

Senator Lugar from Indiana is the ranking Minority Member on the Committee. As you know, we have a unique situation in the Senate where it is 50-50, but Senator Lugar and I have a good relationship. We are working together to establish an extensive hearing record as to what we ought to be doing in the next Farm bill. We want to cover all aspects of it.

This is the first outline. I am going to make a short opening statement and I then am going to recognize the panel of witnesses. I am going to ask them to keep their comments relatively short, 5 to 10 minutes. Their statements will all be made a part of the official record, the hearing record. Then I would like to open it to questions from the audience.

We have an official reporter. I would ask you to take the mic, state your name, and if it is a really complicated name like Smith, just tell her so that the reporter can get the accurate name down

for the record. I would like to have a fairly open discussion and suggestions from any of you who are here.

First, I am told that we have a couple of other public servants here: Bob Anderson, who is a Page County supervisor is here. Please stand and be recognized. Also in attendance is Bob Anderson, Page County supervisor, and Bob Brown Union County supervisor. Bob Brown, thank you for being here.

Now, again, are there any other elected officials that I should recognize that we just did not catch when you came in? Clyde Jones, Montgomery County supervisor. Anyone else?

OK. I have one other person I will recognize. Secretary of Agriculture Patty Judge could not be here, so she has a staff person here. Mitch Gross who is with Secretary Judge's office is here. I do not know where he is.

I will just make a couple of opening statements, and we will sit down for our panel.

I am pleased to be holding two hearings in Iowa today—one here, and then another one this afternoon in Spencer—of the U.S. Senate Committee on Agriculture, Nutrition, and Forestry.

The testimony from our panelists and from the audience will become a part of the official hearing record. Your comments, ideas, and recommendations will be a great help to me and my colleagues as we work to write new legislation and we hope improve programs affecting agriculture and rural communities.

Let me also introduce my staff who is here. On my agriculture committee staff, Mark Halverson, who is my chief of staff on our side, on the Senate Ag Committee, and next to him is Alison Fox. Alison is also on our ag committee. This is her second visit to the Wallace Center here. She was here last summer. Some of you may remember.

Also someone who worked on my staff for a long time and for the last 8 years has been the state director of our Farm Service Agency. She is back on my staff doing rural development work, Ellen Huntoon. Ellen is here. A lot of you know Ellen. She has done a great job in rural development and agriculture.

Also on my Iowa staff is John Moreland who is working with agriculture and rural development issues as well. John Moreland is back there, and next to him, Pam Ringleb. Pam, hold up your hand so everyone knows you.

Those are my staff. If you need to get anything to me as we run out of here to try to get up to Spencer, just speak to them. I am sorry that Congressman Leonard Boswell could not be here; but his staff member, Sally Bowzer is here. Sally, where are you?

I just saw Leonard the other day, and he knew about the hearing. He could not make it. As you know, he is one of our great, strong supporters on the House side.

Farm families and rural communities in Iowa and across our nation need new directions in Federal policies. They have not shared in our nation's prosperity. Although Freedom to Farm has positive features, it had serious shortcomings that I think are obvious.

We have got to learn from this experience and make necessary improvements. We have got to start by restoring a built-in, dependable system of farm income protection that does not require annual emergency appropriation.

We must also remember that farmers are the foremost stewards of our nation's natural resources for future generations. We should strengthen our present conservation programs and adopt new ones to support both farm income and conservation.

I have authored legislation to create a new, wholly voluntary program of incentive payments for conservation practices on land in agriculture production. That approach—improving both farm income and conservation—should be at the heart of the next Farm bill.

To meet these challenges, the next Farm bill must address the broad range of farm and rural issues. We have got to do more to promote new income and marketing opportunities—whether that is through value-added processing cooperatives, creating new products through biotechnology, developing niche and direct marketing, and, of course, overseas trading.

I see tremendous potential for farm income, jobs, and economic growth through clean, renewable energy from farms: ethanol, biodiesel, biomass, wind power, and even down the way, hydrogen fuel cells. We must also ensure that agricultural markets are fair, open, and competitive, and transparent.

We cannot have healthy rural communities unless both farms and small towns are doing well. We have to do more in the next Farm bill to revitalize economics and improve quality of life in rural communities. That includes support for education, health care, telecommunications, closing the digital divide, water supplies, transportation, as well as access to investment capital for rural businesses.

That completes my opening statement. I thank you all for being here this morning. I will now turn to our panel.

Our first witness is Dr. Michael Duffy. I will just go down the line. Dr. Michael Duffy, professor of economics at Iowa State University, Dr. Duffy.

Oh, excuse me, before you start, I am sorry, just a minute, Mike. I have got a letter here from Governor Vilsack that I want to be made a part of the record, dated yesterday. The Governor states, "I encourage you to develop the next Farm bill to help farmers produce conservation commodities, improve their bottom line, and renew the public commitment to agriculture." Basically he focuses on conservation, but I just want to make that a part of the record. Thank you.

[The prepared statement of Senator Harkin can be found in the appendix on page 44.]

**STATEMENT OF MICHAEL DUFFY, PROFESSOR OF
ECONOMICS, IOWA STATE UNIVERSITY**

Mr. DUFFY. Good morning. I appreciate the opportunity to be here. As an extension comment, you know that five minutes is going to be very hard for me, so I will try to talk as fast as I can.

What I would like to do is cover two areas. One is the current situation, as I see it, in Iowa agriculture and to give you what I think are some issues that should be considered in the new Farm bill.

First issue with respect to the current situation is with respect to our income. We had the highest net income in 1996. Since then

it has dropped every year. In 1999, it was 1.45 billion. In 2000, it appears that it will be up, although this is still preliminary, but I think it is very important for us to realize that the government payments have been the backbone of that net farm income.

In the 1990's, net government payments averaged 55 percent of the net, and in 2000, it appears as they will be very close.

Second issue that I think is important with respect to the current situation is in our agronomics. We have a very narrow crop and income base in Iowa. Ninety-two percent of the cropland is devoted to just two crops. Two-thirds of the entire state is covered with just two crops, corn and soybeans. Eighty-nine percent of the cash sales comes from corn, beans, hogs, or cattle. This lack of diversity creates problems, pest problems, environmental problems, and so forth.

Also in the agronomic area, we have seen a change in production practices that have resulted in more yields, increased sales, but less income for the farmers.

Net income as a percent of the gross in the 1950's was 35 percent. Today it is 20 percent, and if we take the government payments out, it drops to 12 percent. That means farms must have three times the sales just to stay even.

It is important to note that size and efficiency should not be confused. The cost per bushel dissipates. The lowest cost is about three to six hundred acres. Farms are getting bigger because they have to earn an income, not because they are more efficient.

Turn now to the demographics that I think are also important to the current situation. The average age of farmers is 52.4 years old, which is up a full 3 years from just a decade earlier.

Today we have more farmers over the age of 65, Twenty-two percent, than we do under the age of 35, at 10 percent. We have more nonfarm rural residents than we do farmers, and I think this is a source of—can be a source of conflict, but I think it could also be a source of benefits, if we choose to move that way.

Changing structure of agriculture is another area that we are all familiar with, but I think it is important for us to realize 50 percent of the farmers in Iowa had sales of less than 50,000. Another 37 percent had sales between 50 and 150,000, which means that 87 percent of the farms in Iowa are small farms by the USDA's definition.

What is happening now is that we have a few very large farms and a lot of small farms that, in my opinion, we are losing the heart of what made Iowa what it is, and that is the average family size farm. This is happening in all sectors, including processing, retailing, and so forth.

Another area is the environment. We continue to have odor, water, soil erosion, a series of problems in spite of the record government payments. What we need to do is address some of these issues, recognize that the current system is seriously flawed.

I would like to move on then to some issues that I think need to be considered for the Farm bill. First of these is energy.

We have had a serious impact on the cost of production. My estimates for Iowa is that it was a 6-percent increase in 2000 to 2001 for corn, and I concur with what you said, Senator Harkin, about we need to continue to look at alternative uses, alternative crops.

We need to look at how on our farms we can make ourselves self-supporting in energy, and I think that what we need to do is to make sure that we continue to look at energy as we move into the future, because it is going to be even more important and we are not going to go back to where we were with the cheap fuel.

Second major issue that I think needs to be addressed in the Farm bill is a change in the definition of a farm. The \$1,000 of sales is antiquated, and I feel that it hurts everyone.

In Iowa, 10 percent of our farms had sales of less than ten—or less than \$1,000, and I think that is just ridiculous to call them farms, and then we have programs that are directed and, as I said, I think that it hurts everyone.

Payment policies, I think we need to start looking at programs that are going to pay to support people, not commodities. To that end, I support the Conservation Security Act that you put forward.

I have also submitted into the record a proposal, a modest proposal that we have, looking at some type of a guaranteed minimum wage for farmers.

Regardless, we need to do something to support people and not just commodities. I am very concerned that what we are doing is bickering, and we are going to end up going to the lowest common denominator and not seeing any real changes. I am about out of time, so I will talk fast.

Level of payments, I think it is extremely important for us to look at. That 55 percent has been factored into rents, land values, and even the infrastructure. If we go cold turkey, we are going to have a lot of problems, so whatever we do, I hope we proceed with caution.

I would also like to encourage you to continue to look at programs for small and beginning farmers, but do not just throw money at them.

Look at alternatives and options that concentrate on their resources. For too long we have tried to get rid of people, and now we need to try to help people in agriculture. A lot of people say this is inevitable, but nothing is. We just have to decide what type of agriculture we want and to go for it. More than just raw products should be in our future.

Thank you.

[The prepared statement of Mr. Duffy can be found in the appendix on page 45.]

Senator HARKIN. Thank you very much, Mr. Duffy. Great statement. Thank you.

Next we will have David Williams, a long-time friend and conservationist and farmer from Villisca, Iowa. Dave.

STATEMENT OF DAVID WILLIAMS, FARMER AND WALLACE FOUNDATION LEARNING CENTER, PAGE COUNTY, IOWA

Mr. WILLIAMS. Thank you. Good morning. Welcome to the Wallace Foundation for Rural Research and Development. I am David Williams, a family farmer from rural Page County.

Senator Harkin, I am pleased to have you come to Southwest Iowa to visit us here at the Wallace Foundation.

We are proud to host this event here today. For your information, for those of you who have not been here, we have 1,200 mem-

bers in 19 counties of Southwest Iowa. We house the extension offices here and some other organizations.

We are very unique in that we have been able to pull this together to house this in a rural area. Some of our goals are not just research, but also outreach and education and site-specific research that you will see on this farm, so we are very proud of this.

I would like to address the 2002 Farm bill and the current Freedom to Farm Bill. The Freedom to Farm Bill, to my way of thinking, from the beginning was a—written by and for corporate agriculture. Simply put, allowing agriculture producers to plant unlimited acres of corn and soybeans without an acreage or bushel limit was a disaster that previous history revealed.

The benefits of the Freedom to Farm Bill to corporate agriculture include increased sales of seed, fertilizer, chemicals, and the lower dollar grain prices to the multinational grain traders and lower prices that gave easy access to the grain and livestock producers. Corporate agriculture has welcomed and profited enormously by large supplies of cheap grain.

Feed grain, excuse me—corn, soybeans, and wheat—in the Midwest have sold at a price below the cost of production and has allowed the integrators of industrialized agriculture to expand at a rapid rate. The expansion of the large corporate livestock operations has been especially evident in the huge expansion of megaswine farms.

There is no way family farmers can survive producing grain and livestock below the cost of production. It is obvious with 50 percent of the total farm income coming from government payments that Freedom to Farm has been a dismal failure.

Here are some ideas I would submit for the 2002 Farm bill: Paying farmers who practice sustainable conservation practices would be a first step in protecting our soil and water quality.

Monetary incentives would go to farmers who installed specific conservation practices. Those farmers not adopting those government conservation practices would not receive government payments. Paying farmers to manage the resource base will actually do more to improve their income than the current system.

Senator Harkin, your Conservation Security Act has really brought that to the attention.

We need to target farm programs that benefit medium-sized farms. These are the farms most at risk financially. Failure to do this will be the demise of family farms. The current farm programs follows the rule that the bigger you get, the more money you will receive. Thus, we subsidize megafarms, bringing higher cash rents and higher land prices.

We should have a safety net that puts a floor under grain prices. A well-planned, on-the-farm grain reserve would also benefit the farmer and be a cushion for a crop failure. There are other parts of the safety net that I did not mention that I think are important.

We need to close payment limitation loopholes. We need to focus the bulk of the support on each farmer's first \$250,000 of production.

I obtained from the Page County NRCS office the total dollar amount requested for conservation construction practices that are on file for cost-share in our county. We have a county that had a

very high percentage of conservation, and we have a 3- to 4-year waiting list.

Conservation practices moneys requested in our county for Federal and State government amounts to \$4.7 million. Matching that 4.7 million means that we are putting \$9.4 million of this conservation in our county in land, and that is to backlog the conservation practices in Page County.

Some other comments: Encourage and provide loans to producers who come together in a cooperative to add value to a value-added product. Here in the Wallace Foundation we have got three different groups that we work with on livestock and put together a value-added grain.

Pass the Agriculture Revitalization and Enterprise Act. I do not have that with me. It is in the packet, Senator Harkin. It is called ACRE. I will see that you get a copy of that.

Enforce mandatory price reporting. That has been—kind of held up, and we need to see that that is happening.

Scrutinize and enforce antitrust activities of the food system. This is critical to the independent producers, and I mean that, critical. It seems like we see three, four, five major food suppliers that are trying to control, especially the red meats and grains.

We need to revisit the pork checkoff vote overturned by the current secretary of agriculture.

In summary, we are at a serious crossroad in the industrialization of agriculture versus the independent farmer. Our farm organizations, commodity groups, our land-grant universities, and our state and Federal Government should draw a line in the sand and decide whether they are going to support independent farmers or corporate agriculture. These groups cannot continue to straddle the fence if independent farmers are to remain viable.

To quote Aldo Leopold, this is something in my life that has been a part of my thinking. In fact, Mike and I serve on the Leopold Board at Iowa State. This is a quote that comes from his part of the land ethic, and this is the quote: "We abuse land because we regard it as a commodity belonging to us. When we see land as a community to which we belong, we may begin to use it with love and respect."

To me, this speaks to the sustainability of the land and family farms. I appreciate the opportunity to share my ideas and thoughts with Senator Harkin and the Senate Agriculture Committee.

[The prepared statement of Mr. Williams can be found in the appendix on page 64.]

Senator HARKIN. Thank you very much, Dave.

Senator HARKIN. Next, we will go to John Askew, president of the Iowa Soybean Association. Good to see you on home turf here, John.

STATEMENT OF JOHN ASKEW, PRESIDENT, IOWA SOYBEAN ASSOCIATION

Mr. ASKEW. Good to see you too.

Senator HARKIN. Well, thanks.

Mr. ASKEW. Good morning. My name is John Askew. I am a soybean producer and family farmer from Fremont County, Iowa, and currently serve as president of the Iowa Soybean Association. On

behalf of the members of the Iowa Soybean Association, the largest state row-crop association in the United States, I wish to thank the Senate Agriculture, Nutrition, and Forestry Committee and Senator Harkin for the opportunity to testify today on the important topic of the future of agriculture in the United States.

As we rapidly approach the 2002 Farm bill, it is important that Iowa soybean producers provide input on many of the critical issues facing agriculture. Iowa is a leader in soybean and agricultural production. The future direction of the agricultural policy is critical for a state such as ours. As a future of agriculture goes in Iowa, so too does the future of our state.

Many important decisions must soon be made regarding U.S. production agriculture. These decisions will cover a broad spectrum of issues, from current domestic farm programs to expanded trade opportunities and development. Iowa soybean producers understand that these decisions will have significant budget impacts.

We hope these important budget decisions will carefully balance the social and economic needs of the farmer and rural communities and the need of the public for a wholesome, safe, and plentiful food supply.

From the perspective of Iowa soybean producers, long-term agricultural policy and budget considerations surrounding the upcoming 2002 Farm bill should focus on the following key areas: First, agricultural policy should focus on enhancing the viability and the long-term global competitiveness of Iowa and U.S. producers.

To this end, Congress and the administration should meet the unfulfilled promises of the 1996 FAIR Act. Such promises include the expansion of trade opportunities and markets, policies to increase domestic demand and utilization of agricultural products, increased funding for agricultural research, improvements in river infrastructure, and meaningful tax and regulatory reform.

If these promises had been kept, the large government outlays that have been required in recent years to support farm income may not have been needed. Congress must complete the unfinished agenda and provide support to agriculture in the interim.

We must address expanding our infrastructure capabilities. The development of local food systems and value-added processing and marketing systems is critical for the continued viability of rural America. Additionally, the establishment of a national energy policy which addresses increased opportunities for biofuel use should be a top priority.

Additionally, any decision on the upcoming farm bill should address and work toward improving risk-management tools and subsidies for crop insurance.

As an organization, we also believe that efforts underway to establish standards for financial and production systems are critically important. We are convinced that helping Iowa and U.S. farmers gain access to and understand the necessary information regarding their farming operations is a key to leveling the playing field.

Second, we believe that soybeans should be treated equitably under the next Farm bill. Agricultural policy decisions must provide improved safety nets for producers. Policy should include the continuation of planting flexibility, maintenance of the current—

current marketing loan rates and the loan deficiency payment structure, and the establishment of a counter-cyclical program.

Specifically, current loan rate ceilings should be set as floors, including the soybean loan rate of 5.26 per bushel.

A third and very important focus of upcoming farm bill decisions should involve land conservation practices and the environmental performance of agriculture. As the front-line stewards of the land, producers are uniquely positioned to work toward increased and improved environmental performance.

We support Senator Harkin's leadership in proposing the Conservation Security Act. The Iowa Soybean Association is developing a voluntary, systems-based approach to improved environmental performance called Certified Environmental Management Systems for Agriculture, or CEMSA. We believe CEMSA could be a complimentary ingredient of future conservation programs.

In conclusion, the Iowa soybean producers very much appreciate the opportunity to provide these comments. We wish the committee well in important decisions it must work on in the future of American agriculture. We are committed to working together in the 2002 Farm bill debate to develop the best possible farm policy for all Americans.

Again, I thank the committee for its time and consideration today.

[The prepared statement of Mr. Askew can be found in the appendix on page 69.]

Senator HARKIN. Thank you very much, John, on behalf of the Iowa Soybean Association.

Senator HARKIN. Next is Shirley Frederiksen, Golden Hills Resource Conservation and Development.

**STATEMENT OF SHIRLEY FREDERIKSEN, GOLDEN HILLS
RESOURCE CONSERVATION AND DEVELOPMENT DISTRICT**

Ms. FREDERIKSEN. Thank you, Senator Harkin, for allowing me to speak at the Senate Agriculture Committee hearing.

Resource Conservation and Development is a program administered by USDA/National Resource Conservation Service providing technical assistance to private nonprofit organizations. Golden Hills RC&D is a nonprofit organization that encompasses eight counties in Southwest Iowa.

The goals of the Resource Conservation and Development board focus on conserving the Loess Hills, strengthening the agriculture economy, developing small, rural businesses, increasing tourism, and assisting underserved clients. The board's vision is to strengthen and diversify the economy of rural communities in Southwest Iowa.

I would like to focus today on some current projects of the Golden Hills RC&D board.

First, the Loess Hills and tourism. The Loess Hills National Scenic Byway is a system of more than 220 miles of county and state roads through the Loess Hills, consisting of a main route and excursion loops.

This tourism project is an excellent example of rural development for the 18 communities along the byway. Travelers stay at bed and

breakfasts, stop at the old-fashioned soda fountains, eat at pie parlors and restaurants, and visit the local artisans.

Scenic America, the nation's leading scenic byway organization, named the Loess Hills Scenic Byway one of the ten most outstanding scenic byways in the country. Each year more than one million people travel the Loess Hills Scenic Byway and visit its attractions.

Another focus is the small business development. Prairie restoration in the Loess Hills is a project providing cost-share to producers clearing invasive species from their native prairies so they can graze their cattle.

Over 99 percent of Iowa's prairies are gone. The Loess Hills contain the majority of undisturbed prairie remnants and comprise the last intact prairie system in Iowa.

The prairie restoration project has spurred many entrepreneurs to diversify their existing, traditional agricultural businesses. Some of the developing businesses that they have used as a sideline include: Tree-shearing, native grass seed collection, native grass seeding for hire, prescribed burn business, and other cedar utilization businesses, such as mulch and biochips.

Strengthening agriculture is the third area I would like to discuss. Developing our alternative agriculture and local food systems is another developing project. One of the efforts underway by the Golden Hills RC&D board is to revive the grape and wine industry in Western Iowa.

At one time Iowa boasted more than 6,000 acres of vineyards, 3,000 of which were in the Loess Hills. This distinct—The distinctive flavor of the fruit grown in this soil made the Loess Hills a perfect location for vineyards and wineries.

For growers, the income potential in today's market with conservative figures is approximately \$1,800 net per acre for a fully mature vineyard. Adding value to that grape by producing wine increases the profit potential to between \$7,000 to \$10,000 per acre. Of course, that is using conservative figures, since I am a conservative person.

Golden Hills is very proud of the work that they have accomplished over the past 20 years, and with access to resources, project opportunities yet to be explored include: First, local food systems, integrating more locally produced food into the restaurants and food-service industry in Western Iowa.

Second, alternative energy. There are a couple of ways to increase profits, and I hope Mr. Duffy will agree with these. One is to increase the prices of products, and two is to decrease purchased inputs. Utilizing alternative energy reduces input costs, thereby increasing net profits for farmers and businesses alike.

Golden Hills RC&D would like to investigate wind and solar energy and the use of biomass as alternative energy sources for rural America.

Third, is ag tourism. We have a wonderful traditional agricultural system here in Iowa, and by sharing that ag experience with visitors to the state, we can increase our profits again through tourism.

In the next 20 years, we look forward to leading in the development of these projects and others.

Thank you for the support of the RC&D program, because I know Senator Harkin is a large supporter of that, and for considering a strong rural development component in the upcoming farm bill.

[The prepared statement of Ms. Frederiksen can be found in the appendix on page 76.]

Senator HARKIN. Thank you very much. Appreciate it. Thank you.

Senator HARKIN. Next, we have Sam Carney who is the vice president of the Iowa Pork Producers Association. Welcome.

STATEMENT OF SAM CARNEY, VICE PRESIDENT, IOWA PORK PRODUCERS ASSOCIATION

Mr. CARNEY. Thank you, Mr. Harkin. I am pleased to testify today on farm commodity programs and other policies that will ultimately become part of the next Farm bill.

I am Sam Carney, and I produce hogs, cattle, corn, and soybeans with my brother and my son. Our farm supports these three families near Adair, Iowa. I am also vice president of Producer Services for the Iowa Pork Producers Association.

My comments today will focus primarily on livestock components of the next Farm bill.

While much of the discussion and debate on the next Farm bill will focus on grain production, please keep in mind a substantial portion of Iowa's corn and soybean crops are fed to livestock and poultry. The pork industry represents a major value-added activity in rural America and major contributor to the overall U.S. economy.

While the issue at hand today is the future of commodity programs, I believe the next Farm bill must also focus on conservation, trade, market competitiveness, environmental, food-safety, and biosecurity issues.

Agriculture is moving from an unregulated to a regulated industry in most aspects of our farming operation. Nonetheless, livestock farmers, except dairy farms, have operated in a marketplace without government subsidies and controls.

However, we have a huge stake in the next Farm bill discussion. Approximately 60 to 65 percent of the cost of raising hogs is from feed costs. Corn and soybeans are the major components for our feed rations.

Therefore, any changes in commodity programs that affect the price of feed have a profound financial impact on livestock operations. As major users of the grain and oilseed commodities, problems and issues of livestock producers ultimately affect grain and oilseed producer prices.

As for conservation and environment, livestock producers in several states face or will soon face costly environmental regulations as a result of state or Federal laws designed to protect water quality. This includes Federal regulations under the Clean Water Act for TMDLs and the proposed new CAFO permit requirements. Federal regulators also are exploring the possibility of expanding Federal regulation of agriculture under the Clean Air Act.

Since 1997, EQIP has accumulated a backlog of 196,000 unfunded applications for approximately 1.4 billion in assistance, more than half of which is for livestock producers.

Farmers and ranchers are on the verge of a new regulatory era, and it is impossible for us to pass on the costs of regulatory compliance. We are price-takers, not price-makers.

While I believe all farmers are true environmentalists, a typical operation like mine cannot afford the investment it will take to comply with new regulations. I urge the committee to provide the assistance necessary to implement sound conservation practices to protect our nation's air and water.

I urge the committee to support at least ten billion over the life of the next Farm bill in spending for USDA conservation practices to address livestock's environmental needs, specifically for water and air quality.

These funds should be used to provide financial incentives, cost-sharing, and technical assistance to livestock, dairy, and poultry producers to develop and implement manure and nutrient management plans that are built on practices that protect water and air quality.

Any successful conservation assistance program must be available to every producer, regardless of the type of production, whether confinement, open feedlots. Of course, payment limitations could apply similar to row-crop payments. I feel it is appropriate and fair that the livestock community be treated in the same manner as the row-crop producers through the use of similar payment limitations.

As for trade expansion, U.S. pork producers became net exporters in 1995 for the first time. In order to sustain the profitability of our producers, we must do a better job of product marketing and doing away with market-distorting trade practices.

Pork producers believe funding for the Market Access Program should be boosted. Also the trade promotion authority should be renewed and the U.S. position in the next trade negotiations for agriculture should include the total elimination of all tariffs, all export subsidies, and all trade-distorting support for the pork and pork products by other countries.

In addition, we believe that the Global Food for Education and Child Nutrition Act should include pork, beef, poultry, and dairy products as well as commodities.

As for animal diseases, if the current situation in the UK and Europe has taught us anything, it shows how important biosecurity issues are to U.S. livestock farms.

Although the U.S. has not had to face foot-and-mouth disease since 1929, Congress and USDA must be diligent to ensure that all preventive measures are ready—are taken and that our effective and rapid response could be ready when needed. This includes surveillance, increased diagnostic capabilities, and a rapid response plan.

While I believe most of these initiatives are underway, Congress should fund 380 million for renovation of the Animal Diagnostic Center in Ames. Quite frankly, this cannot happen fast enough.

As for the concentration of livestock industry, while not directly related to farm bill discussions, I want to touch on livestock concentration issues. I have attached a summary of the IPPA activities on captive supplies in the livestock industry, which date back to 1975.

Obviously, our work is not finished. Therefore, I urge Congress to continue supporting a free flow of market information, such as the mandatory price reporting legislation. That legislation was an important step in the right direction, and I thank you for helping USDA fund its implementation.

I have also attached a bulletin on the pork checkoff, which I am not going in detail at this time.

I appreciate the opportunity to be here today. I look forward to working with you, your staff, and your committee as deliberations on the next Farm bill continue. Thank you very much.

[The prepared statement of Mr. Carney can be found in the appendix on page 78.]

Senator HARKIN. Sam, thank you very much for your statement.

Senator HARKIN. Last we have Aaron Lehman who is with the Iowa Farmers Union in Polk City, Iowa.

**STATEMENT OF AARON HELEY LEHMAN, IOWA FARMERS
UNION**

Mr. LEHMAN. Senator Harkin, my name is Aaron Heley Lehman. I am the legislative director of Iowa Farmers Union, and I also farm with my family as the fifth generation on our family farm in Central Iowa. It is a pleasure speaking with you today on behalf of our family farmers.

Senator, Freedom to Farm was adopted when commodity prices were high and expectations for agriculture were unrealistic. In reality, the promise of a broad, market-based environment of opportunity for farmers was shattered by an ongoing commodity price collapse.

The dream of farmers less entangled in government involvement has turned into a nightmare of government dependency. While the government subsidies have provided relief to farmers struggling to survive, the payments have the side effect of fueling the trend toward larger and larger farms and concentration in agribusiness.

We are not asking you to tinker around the edges of a failed policy. We are asking for a return to common sense in farm policy.

We believe that a primary goal of the commodity program should be to provide economic stability and opportunity for farmers; a program which recognizes market realities, resource sustainability, and food security and safety issues.

We believe that commodity loans should be dramatically modified to better reflect the cost of production for farmers. The current program artificially capped loan rates and ignores the marketplace, ignores the production factors, and ignores the rising costs of crop inputs.

Our proposal would place that loan rate as high as possible, but not lower than 80 percent of the 3-year average cost of production. It is time our loan rate reflected economic reality and common sense.

We believe that we must take steps to control our inventory. In this regard, no other production industry ignores the marketplace like agriculture currently does. We are foolish to expect a marketplace, foreign or domestic, to blindly comply with our inventory needs.

To manage our inventories, we believe we should establish reserves to ensure our commitment to renewable fuels production and to humanitarian food assistance.

Finally, we should establish reserves in a limited, farmer-owned reserve program. Participants should receive annual storage payments in exchange for storing crops until prices reach the cost of production.

In addition, no industry can expect to continue to produce in a volume that exceeds market demand. We believe the Secretary of Agriculture should have the discretionary authority to offer a voluntary set-aside program. We feel that farmers should be rewarded with a raise in commodity loan rates which reflects the level of their own set-aside.

We feel strongly that program benefits need be directed to family size producers. Unrestricted government payments, which the current program effectively provides, leads to large farmers using government assistance to bid up land prices and cash rents to levels completely out of line with commodity prices.

If farmers want to farm half the county, let them do it, but do not let them take taxpayer money to help finance it.

As farmers, we have a responsibility for sound land stewardship. Farming, as in our family, stretches across generations. We do not own land as much as we borrow from our children and try to make the best use of it as our own contribution.

Senator we strongly support the Conservation Security Act and we urge Congress to expand the Conservation Reserve Program.

Enhanced rural development programs must be an integral part of the Farm bill discussion, and that enhanced cooperative development should be central in that discussion.

Production research should be directed to creating value—creating value that benefits family farmers, and funding should be targeted to the multi-functional aspects of agriculture, including less capital intensive technologies, alternative value-added products, energy conservation, and renewable energy development.

Concentration of market power among a few large and highly integrated agribusinesses has reached an all-time high, and steps need to be taken to address this concentration, and until these steps are taken, a moratorium on agribusiness mergers should be immediately enacted.

In addition, discriminatory pricing and packer ownership of livestock should be immediately halted. Checkoff program work should be targeted to the benefit of family size producers and should be accountable to producers. We feel that the producer referendum ballots should be respected and not ignored.

In closing, Senator, your work in this next year on agriculture issues will leave a permanent mark on the direction of agriculture in the 21st Century.

While I want our policy to make us leaders in production and efficiency, I want more so that our policy points us to a strong, healthy, rural Iowa and rural America. I want to pledge our efforts to help make agriculture policy responsive to farmers and rural communities while providing consumers with safe and secure food.

Thank you for your time, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Lehman can be found in the appendix on page 83.]

Senator HARKIN. Thank you very much, Aaron. I appreciate you being here.

Senator HARKIN. Let me see if I can recap a little bit here some of the things we have heard. Dr. Duffy, you talked about the income of farmers and how it has dropped down considerably since the high in 1996, and made the point that 55 percent of our net income came from government payments and that 92 percent of our cropland in Iowa is devoted to two crops.

He said that in the 1950's the net income of farmers was about 34 percent of gross. Now it is down to 20 percent of gross. According to USDA definitions, 87 percent of Iowa farms are small farms with sales less than \$250,000, is that correct?

Dr. DUFFY. Yes.

Senator HARKIN. Dr. Duffy made the point that we should do some things in the Farm bill, like looking at being self-sufficient in energy on farms. Might want to question you some more about that.

The program should support people, not commodities. He made a statement about some form of minimum wage for farmers. I would like to investigate that. It was also pointed out that the level of payments that we have had have been built into land values and rents and things like that and that we just cannot go cold turkey in terms of doing away with those.

First of all, I have a question of the Wallace Center. Are you hooked up with the ICN?

Mr. WILLIAMS. Yes, we are.

Senator HARKIN. I saw that. I thought that you might be. You have got a cable coming out here.

Mr. Williams pointed out that over 50 percent of the payments were from the government. He suggested that in the Farm bill, we have good conservation practices to manage our resource base, and that we target our programs.

He mentioned the use of a grain reserve and a safety net, and that we close payment limitation loopholes. Mr. Williams noted that there was a three- to four-year waiting list in Page County for conservation cost-share programs and that we have a long backlog of those.

He also mentioned ACRE, which I have to have you explain to me, because I am not all that familiar with it. He mentioned the need for mandatory price reporting, and the need to investigate antitrust activities. Mr. Williams stated that the pork checkoff should be revisited.

Mr. Askew talked about balancing the social and economic needs of farmers and growth in rural communities. He said in the Farm bill that we have to focus on global competitiveness, expanding trade opportunities, research, and tax and regulatory reform.

He mentioned energy policy and biofuels in the new Farm bill. Mr. Askew also suggested that we should look at risk-management tools and insurance, and also the information flow to farmers. I assume you mean closing that digital divide, making sure that farmers get adequate information and up-to-date information, and ensuring that soybeans were treated equitably in the new Farm bill.

He mentioned the LDP structure, loan deficiency payment structure, and a counter-cyclical—need for some counter-cyclical-type of program. Lastly, Mr. Askew noted land conservation and Conservation Security Act and the program that the Iowa soybean producers have come up with called the Certified Environmental Management Systems for Agriculture, the CEMSA program.

Shirley Frederiksen talked about the Loess Hills Scenic Byway, one of the ten best in the United States, and the prairie restoration project. You mentioned a number of different things regarding the grape and wine industry.

I can remember as a kid my dad buying Betty Ann Wine. Anybody ever heard of that? You drank that wild stuff?

I am not kidding you, there used to be big wineries over in Council Bluffs called Betty Ann Wine, and they had all these—I remember one time as a little kid seeing all those vineyards over there.

Ms. Frederiksen indicated that wine could produce \$7,000 to \$10,000 per acre. She also spoke about local food systems, energy, solar, wind, biomass, ag tourism. Their thrust was really that we have to focus on rural development in our Farm bill.

Mr. Carney, with the Iowa Pork Producers, said that we should focus on conservation, trade, market competitiveness, the environment, food safety, and biosecurity. He reminded us, as we always need to be reminded, that any changes in commodity programs do affect livestock operations one way or the other and that always has to be taken into account. Mr. Carney also mentioned that this EQIP backlog of 196,000 is what you mentioned in the EQIP program.

Mr. Carney stated that we need a minimum of \$10 billion in the Farm bill for conservation over the life of the Farm bill. He indicated that payment limitations could be used also in livestock as we do also in row-crop production.

He also mentioned trade and boosting the Market Access Program and including meat products in the Food for Education Program. I assume you mean that that is that new school lunch-type thing we are talking about.

Mr. Carney mentioned the need for rebuilding and renovating the National Animal Disease Center at Ames. That \$380 million mark, by the way, stands now at 446 million, so the sooner we get it built, the cheaper it is going to be.

He indicated that concentration and really enforcing more and getting more enforcing for the mandatory price reporting.

Mr. Lehman, representing the Iowa Farmers Union talked about the payments basically has fueled the trend toward larger farms, our goal in the Farm bill ought to be economic stability, opportunity to family farmers, resource sustainability, and food security.

He pointed out that the loan rate, ought to be set at the minimum of 80 percent of the 3-year average cost of production, and that we need to control our inventories, like with reserves, renewable fuels, and some kind of humanitarian food assistance. Mr. Lehman indicated the need for a farmer-owned reserve and for annual storage payments for farmers for the reserve program. He said that benefits ought to be targeted to family sized producers.

Mr. Lehman also referred to the Conservation Security Act, expansion of conservation programs, rural development, enhancing

cooperative developments, and farmer-owned cooperative developments.

He said our research should be to create value that would benefit the family farms, enforce antitrust laws, and stop packer ownership of livestock.

Does that basically summarize the testimony? Again, I thank you, and what I would like to do is just—I have just a few questions, and then we will open it to the audience.

For Dr. DUFFY I just want to ask: If there are only modest deficiency payments from increasing farm size above 300 to 600 acres, as your Iowa Farm Business Association data indicates, would you say that government payments which are directly linked to production and acreage might be offering alternative incentives to grow even larger?

Dr. DUFFY. I want to make sure that we are clear. What I was talking about was the cost per bushel dollars that it would cost to produce it.

Senator HARKIN. Yes.

Dr. DUFFY. Then, yes, because the larger you get, the way that the program is set right now, particularly with the LDPs, the more Federal money you get, the more you produce, and so as we move on out, basically what we have in the jargon is an L-shaped average cost curve, so we have initial economies of size, and then those are dissipated, and then it flattens out, and the data for Iowa shows somewhere between three to six hundred acres is that low point, and then people just move along that cost curve. As they move out, the more bushels you produce, the more payment you get.

Senator HARKIN. What you are saying is there may be kind of a perverse type of an impact. In other words, we have the commodity program, we have the payments, the LDPs. I assume you are including the AMPPTA payments on that?

Dr. DUFFY. Yes.

Senator HARKIN. Would I be right in saying or assuming that if you are bigger and you get more payments, then you get more money, that might enable you to bid up perhaps your neighbor's land in terms of getting larger? In other words, you get more money, so would it have a perverse impact of actually farms even growing bigger?

Let me rephrase that. Do our farm programs today, in your estimation, lead to larger farms? That is about as simple as I can make it.

Dr. DUFFY. I believe they do, yes. Because, as you move out and increase the payments, the larger you are, that it encourages an increase in size.

I also think that when you look, the payments that came out, I remember when the Food Security Act—or the Freedom to Farm was first passed, and I had a landlord call me and was asking about how this worked and so forth, and I said, “Well, you are under cash rent and so you are not eligible for any of the payments.” I had to wait until she was done laughing and said, “Just watch me. I will get them.” In other words, she just bid up the rent.

It works in a lot of different—The programs are exerting all kinds of influences on rents, on land value, on the infrastructure. It is—We need to be very conscious of when we go in and we tinker with, if you will, that that has the intended as well as unintended consequences. The biggest reason farms are getting bigger is because they have to generate an income, and the reason they have to generate an income is because we have developed production technologies where we basically just pass money through the farm.

This is a term coined by Lord Cochran about the technology treadmill, where we just—you need more land, so you buy bigger equipment. You buy bigger equipment, and your costs go up, so you need more land. Then you adopt technology so that you can farm more land. You have more equipment so you can farm more land, so you bid up the rent so you can justify the equipment, and around and around and around she goes.

There is a variety of reasons, and I would be happy to go into it with you, but the government programs, do they cause per se? Maybe not. Do they not do anything to discourage? Definitely.

Senator HARKIN. I see what you are saying. In some ways you mean the System. Obviously, a farmer today with the new equipment and new technologies obviously can crop a lot more acres than a farmer could 50 years ago, 30 years ago, 20 years ago. There is no doubt about that, right?

The farmer can plant and crop more acres with bigger equipment, faster equipment, better technology, better knowledge, better information on planting, better hybrids, for example.

I guess my question is though, and I have often thought about this: Yet an individual farmer, I mean there is only 24 hours in a day, only 7 days in a week, and a farmer has to sleep sometime, and they have to eat. They have to tend to their family. They have to do other things.

I mean there is only so much time within that time constraint of a farmer. It seems to me there is just some limit on how much that farmer can actually do. I mean, I do not know where that is, but it may be a range, depending upon the land and the structure of the land and how clear the land is and all that stuff, but it just seems to me that there is some range in there where after you get to a certain point, farmers just simply cannot farm any more land and still be efficient. I guess I am talking about efficiency.

Mr. DUFFY. That is why occasionally within the data from the Iowa Farm Business Association I believe 7,000 acres is the largest farm that is in there, and we have farms bigger than that here in Iowa, but there is some argument that rather than an L-shaped, we actually have a U-shaped with a very long, flat bottom and then actually you reach a point where your costs start going back up, and you—primarily you are going to exceed your management ability.

Senator HARKIN. Yes.

Mr. DUFFY. You also shift from being a family farmer, in my opinion, to being a personnel manager, because you have so many hired men or women, and then you become—you are operating—you are managing people rather than managing the land.

Senator HARKIN. I see. I am going to throw it up to the panel, because it is general discussion here. You mentioned one other

kind of a, if I might use the word “provocative” idea, some form of minimum wage for farmers. Do you want to tell me what you mean by that.

Mr. DUFFY. It was not intended to be provocative. It was intended to—I mean—

Senator HARKIN. I mean provoking thing.

Mr. DUFFY [continuing.] OK. I do not like to cause trouble.

[Laughter.]

Mr. DUFFY. Not too much. Dr. Lasley and I were having a conversation 1 day, and we were talking about the current situation and where we are going and the concern that we have that people are at loggerheads and they are concerned about what is going to be just for them and not really looking at the whole picture, if you will.

Senator HARKIN. Yes.

Mr. DUFFY. Then we came up and we decided that—Paul suggested, well, what about if we have a minimum wage for farmers where we were paying people? I worked on and developed a proposal that I included with my testimony, and I have copies of it out there, and I would love for people to look at it.

Basically the idea of the proposal is that a farmer would be paid based on the number of hours that they work and up to a full-time equivalent, and then beyond that they would get more payments, and less than that, only get paid based on what they worked.

The way that they would get paid, the number of hours would be determined by the number of acres and the crops that they had, the amount of livestock that they had. We have fairly good estimates on the amount of time that it takes per litter or per acre, and then you would just multiply that out.

That would give you your number of hours, and if that exceeded—and we used 8-hour days, 7 days a week, 50 weeks a year, and those are things that could be debated. That comes up to 2,800 hours, and so in a nutshell, but that is what we have.

Senator HARKIN. That is in this paper?

Mr. DUFFY. In the proposal, yes, sir. I do not know. To me, it is trying to support the labor that is involved. It offers all kinds of neat advantages, in my opinion.

It is totally divorced from the market so that I feel that it would be a green box as far as WTO is concerned. You would have total freedom to plant. You could plant whatever you wanted. Offers a lot of different kinds of features. I offer it for yours and the group’s consideration.

Senator HARKIN. That is what we need. We need to start thinking outside of the box, as well as inside the green box.

Any other thoughts about—I am also concerned about the whole aspect of trade.

Now, when you say “soybean producers,” we are in Washington talking about what is happening in Brazil and the expansion of crops here.

Last year, for example, I was in China in August and discovered, boy, they have got a lot of land in production, and they actually were exporting corn. We thought there was going to be a market for us. They are actually exporting corn, but I do not know how many good years they have in a row. They are expanding their crop

production in China too as well as soybeans. I do not know if they export soybeans or not. I do not know about that.

I know they exported corn last year, so I am just wondering what we see in the way of trade overseas. I mean how can we expand trade? We looked at markets, but if Brazil is putting all this practically free land in production, and how do we compete with that? That is what I do not understand.

Mr. ASKEW. Well, first we should look at sanctions' reform. We have sanctions against probably two-thirds of the people out there in this world, that we are not able to deliver food and we can. That is an important thing. Just the other day with Iraq, with one example of one way and then turn right around and go back the other way.

It is important because we export half of our soybeans out of this country. Brazil and Argentina are competitors to us. We have to understand that. Are they more efficient than us? No. I mean logically look at this.

They are using Case IH combines that are shipped from here in the United States down there. They are using seed that is very poor. They get so much rain. They have to use so much fertilizer, so many insect problems.

It is not that great down there, and we just had a group that came back from Brazil and Argentina, and their first thing was, keep it up, because they are hurting down there, but are we going to run them out of business?

We had a group up here this summer that were from Argentina, and we got to talking to them. There is a language barrier there, but you could get a pretty good indication, but you know what? Looking at them is like looking just out here in this group. They have the same concerns we do. They have farming in their blood. They are going to keep going as long as they can until they lose money, and they are losing money down there.

The thing is, we bring our soybean prices up and we have that same—there will be land in production. It will take 50 years to get it fully in production, but right now the bulldozers are not moving down in Brazil. They were back in 1995 and 1996, but we had good prices back then.

Now we are looking at that we have got to be the Number 1 soybean exporter. We have got to be the dependable source, because, frankly, if we keep these sanctions in place, we cannot be the dependable source for soybeans or corn or anything else.

We have got to address the problems inside our own borders. As for the biotechnology, I think we all support biotechnology to a certain extent. That is going to be the way we compete in the world in the future, but we have got to be able to get by political aspects of biotechnology and look at the positive aspects, especially out there in the countryside where we are using less pesticides and we are doing more out there using some biotech crops than we ever did before.

It has increased our production, but our soybean-use rations is tremendous. As we grow those beans, we are using them.

We can use a lot more if we use renewable standards. It is very important.

Ethanol, I think everybody out here is a big supporter of ethanol. We also have to be a big supporter of biodiesel.

Senator HARKIN. On the biodiesel, you know this. I might tell the audience. About a week ago I was in Cedar Rapids and poured the first gallon of soy diesel into buses.

They have 32 buses in Cedar Rapids now running on soy diesel. It is an 80/20 blend, 20 percent soy, 80 percent regular diesel.

The soy diesel is made around Sioux City someplace. If one percent of the diesel market in America were to use this soy diesel, in this 80/20 blend, I think it would take about 300 million gallons. Estimates are that it might boost the price of soybeans as much as 15 cents a bushel. Plus it cuts down on hydrocarbons, it cuts down on pollution, and it cuts down on CO2 emissions. There would be a 70 percent reduction in CO2 emissions if you use soy diesel.

I am sorry, Mr. Lehman.

Mr. LEHMAN. Well, in the area of trade too, we feel strongly we need to aggressively pursue trade opportunities. We need to keep in mind that those trade opportunities need to be fair for our producers.

I use Monsanto products just like those farmers do in Brazil. They do not pay a tech fee.

Senator HARKIN. They do not pay what?

Mr. LEHMAN. A technology fee that is attached to products we use, and when we ask why that is, it is because they do not have the same environmental standards for—that we have to have here. That is a cost of production that we face that their farmers do not face.

We talked about China now becoming a competitor in—and becoming an exporter of corn. The labor standards for producing corn in China are nearly nonexistent, and if we really want to compare bushels produced in China and bushels produced in the United States, then at the same time we are producing—we are comparing how farmers are being treated in this country to how farmers are earning income in China as well. Those labor standards need to be taken into account too. We need to pursue those trade opportunities.

Senator HARKIN. Well, I agree with that. While I have been a supporter in the past of what they call fast-track legislation, the President's ability to move trade legislation rapidly through the Congress, I stopped.

I stopped being a supporter when the trade agreements carve out any kind of environmental or labor standards. Because it seems to me that that has got to be a part of our trade laws too. I am just telling you what I feel, but they have got to be a part of our trade laws.

Otherwise, we let people undercut by using basically slave labor. We allow people to just do environmental pollution, which affects the whole globe and undercut us.

I have always said that if we can protect CDs, compact disks, I did not mean certificates of deposits. I mean compact disks. If we can protect the compact disks and take action against any county that would allow the piracy of compact disks, we ought to be able to take action against counties that do not meet certain environmental standards and labor standards.

I would hope, and I make this statement forthrightly, I encourage all of the agricultural groups you represent and others that may not be here, that this is one place where I hope the agricultural—agribusiness section, including farmers, will break from the corporate business sector of America, because the corporate business of America is saying they do not want trade—they do not want environmental standards or labor standards in our trade agreements.

I mean it is especially important, vital to our farmers, that we have those kind of practices. I encourage those of us involved in agriculture to take a separate stance, and that is just my own feeling.

Any other thoughts on this, Sam?

Mr. CARNEY. I do have a few, and as John mentioned, we have two-thirds of our—we have sanctions on two-thirds of the countries, and I guess what kind of upsets me is on our industrial tariffs we average four percent. On the agricultural tariffs, we average around 40 percent. This is a major problem.

I am sure people out here have to borrow money, and if anybody had to borrow at 40 percent interest, you just as well walk out the door. You are done.

We have got to get this changed. This is a major, major, major issue with agriculture.

Senator HARKIN. Say that again. Tariffs—

Mr. CARNEY. OK. Industrial tariffs average about 4 percent. Do not quote me, but that is the average.

Senator HARKIN [continuing.] Industrial on industry coming into this country?

Mr. CARNEY. Going out to other countries too.

Senator HARKIN. Tariffs we face on our exports?

Mr. CARNEY. Yes. Maybe I did not explain it right, but as our exports on agriculture, we average 40 percent going out.

Senator HARKIN. That other countries put on our agriculture?

Mr. CARNEY. Right. The main reason is we put so many sanctions on. This is the thing that we have got to change. To me, we should never have sanctions on a country unless we are outright at war with them. If you want to put sanctions on a country, I do not think it really helps.

Senator HARKIN. What you are saying, there are countries we have absolute total prohibitions on, but other countries you are saying we have one form or another?

Mr. CARNEY. Correct. You know, we have got certain things, but what I am saying is: We should not use food or medicine.

I just do not think that is right, and I do not think that really helps us help with other countries. This is something we should eliminate.

Senator HARKIN. I agree with you, totally agree with you. A funny little story: I remember once, one of my political heroes was Hubert Humphrey from Minnesota. He is now deceased. He was on the Senate Ag Committee long before I got there, and he was talking about selling food to Russia and—during the height of the cold war, and someone said something to Humphrey about selling—selling this food to Russia, and he said, “Well, I believe we should sell them anything they cannot throw back at us.”

[Laughter.]

Senator HARKIN. I thought that sounded like a pretty good philosophy to me.

[Laughter.]

I appreciate that. I am going to open it to the audience now. You have heard a fairly good discussion here.

I just want to make one other point here, that the conservation incentive. I appreciate a lot of you looking at the Conservation Security Act. Any further thoughts, refinements, suggestions that you have on that, please let us know. If we do a conservation incentive, it does shift the practices and less to the commodities, which I have heard a little bit of here today.

I have got my little chart here. I am sure you can all see this real well. It shows the CCC outlays for the fiscal year 2000. We had \$32.2 billion in outlays, but we only had 1.7 billion in conservation, so that gives you some idea of the small amount of money that we put out in conservation.

I have always said, that we have got a lot of farmers out there practicing good conservation. I do not mean just CRP or set-aside, but I am talking about practicing good conservation. This takes time. It takes equipment. A lot of times it takes out-of-pocket money, but they get nothing for it. The Conservation Security Act is to convey to farmers, "OK. Now, we are going to support you in your practices, and if you want to do more voluntarily, we will pay you."

Mr. WILLIAMS. Senator Harkin, there is also a direct long-term societal cost to America in how we take care of our land.

Senator HARKIN. Yes, and I think that is going to be a good selling point to some of those who are now saying that we should not be putting that much money out in agriculture, that we are already hearing that kind of reaction coming back.

OK. I am going to throw it open, and again, I ask you to please state your name so our reporter can get your name correct.

STATEMENT OF DENISE O'BRIEN, ATLANTIC, IOWA

Ms. O'BRIEN. Good morning, Senator Harkin. I am Denise O'Brien from Atlantic, Iowa. I can say that 25 years I have proudly been an organic farmer, and about 20 of those years I have given ag testimony within Iowa and Washington D.C.

Senator HARKIN. I am very appreciative of you. You have been there many times, and I appreciate it.

Ms. O'BRIEN. I keep nagging, but someday something will change, and believe me, I have not got cynical yet. You know, I can still smile.

First of all, I would like to make a comment about the lack of gender balance on the program. It is good that Shirley is there, but women do have a voice in agriculture, and to leave out that voice, we leave out—

Senator HARKIN. You take that up with the Pork Producers, the Soybean Association, and the Farmers Union. I just asked them to please have someone come testify.

Ms. O'BRIEN [continuing.] I will take that up. It is really good if the organizations would have women represent them on these, because women do add a voice to solutions, so I would encourage all organizations to do that.

Senator HARKIN. Point well made.

Ms. O'BRIEN. I am representing actually an organization called Women's Food in Agriculture, because we do not have a voice in a lot of organizations, so we have created an organization.

Today I am speaking on behalf of organic agriculture, which has not been mentioned at all, and I think there is approximately now in Iowa 170,000 acres of certified organic crops.

There is an alternative solution to some of this. It is not everybody's solution. I agree, but these farmers are profitable. They are making it. They are turning a profit, but I also want to say at the time that they are turning a profit, they are in grave danger of losing their economic—or organic status because of the problem with GMOs. We have not talked about GMOs this morning either, genetically modified organisms.

When the organic crops get contaminated by genetically modified organisms, they lose their—the farmer who has the organic crops loses their market, and that market has been a market that has been increased, profitability for them.

The National Organic Standards Board have made the standards now, and there is zero tolerance of GMO contamination, so I think that we have to consider what we are doing in this process of eliminating—or of contaminating these organic crops.

Recently the Organic Farming Research Foundation released a state of the states report, and it is Organic Farming Systems Research at Land-Grant Institutions, so this report has come out about the state of organic research in the United States.

I would like to say that because public funds support the land-grant system, we expect it to be responsive to the educational and research needs of the constituents, including organic farmers, and we have been totally left out.

I know this from 25 years of experience. We have always—My husband and I have always been left out of any—all of these payments. We have been good stewards of the land. We have had a crop rotation when the set-aside was based on corn base. We never qualified for anything, not that we wanted government payments, but we never qualified for anything because it was really—we were—it was a disincentive for us to do what we did, but we believed in what we were doing.

Senator HARKIN. Are you suggesting that—and I am just asking, that there should be special provisions made in the next Farm bill that would help encourage organic farmers to give some better support somehow?

Ms. O'BRIEN. You betcha.

Senator HARKIN. Do you have some ideas on how we do that, Denise?

Ms. O'BRIEN. we have it right in this book here. I have given this book to Ellen, so she has got that.

Senator HARKIN. All right.

Ms. O'BRIEN. There is no support of organic research. We do have—Iowa State has the only organic specialist in the country, Kathleen Delate, and she has—Mike is raising his hand.

Mr. DUFFY. I was just going to say that connected with the Armstrong Farm, we also have a long-term research project that is sole-

ly devoted to organic production. I thought I saw Bernie here, the farm manager who is running it, so—

Ms. O'BRIEN. Yes.

Senator HARKIN. Somewhere here?

Mr. DUFFY [continuing.] Right back—

Mr. BACKHAUS. The Neely Kenyon farm.

Mr. DUFFY [continuing.] The Neely Kenyon farm, which is connected with—

Senator HARKIN. Where is it?

Ms. O'BRIEN. Adair County.

Mr. DUFFY [continuing.] It is connected with this—

Mr. BACKHAUS. It is part of our farm. My name is Rob Backhaus. I am president of the Wallace Foundation.

Ms. O'BRIEN. To go on with the question you asked me: There is 17 acres under research in Iowa, and many states have zero research going on into organics, and so with Iowa State having an organic specialist, she is totally overworked and totally unaccessible. I try to get ahold of her, and she is just understaffed.

I know we have to take this up with Iowa State, and Practical Farmers of Iowa is doing that very thing.

Senator HARKIN. Now, again, in your practices, I will bet you do not get any kind of payments at all for your practices.

Ms. O'BRIEN. Oh, no. We never ever have.

Senator HARKIN. Alison just reminded me under the Conservation Security Act you would.

Ms. O'BRIEN. Well, now we changed our farming situation over the years and Larry is working off the farm now, and I do ten acres, so we have got—but that is an encouragement to get back in actually. It would be an encouragement.

To continue with my testimony, I just want to say that the good news is that land grants in 39 states have research and/or resource development for organic producers. Land-grant institutions in 19 states reported research acreage net gained in organically, 12 of which have research land that is certified or in transition to certification.

The bad news is, is that of the 885,000 available research acres in the land-grant system, only .02, or 150 acres, out of 880,000 acres is devoted to certified organic research. That is a totally unbalanced situation.

When we are looking for solutions, I think we ought to think about organic agriculture, and I am really proud to stand here all these years. I know people have thought I am kind of whacked out sometimes about my organics, but I am standing here.

The private sector ag has taken on themselves to do the research, and the Organic Farming Research Foundation in California has funded programs in Iowa.

I want to point out that the Heartland Organic Cooperative, grain cooperative that is located in Adair County, is now buying the Stuart elevator, and there is going to be access for semi loads of organic produce—or commodities, this is a commodity one, this is corn and soybeans. They are just taking over the Stuart elevator, so I think it is really relevant that—and they have operated 8 years in the black.

Compared to other—Mark is telling me that I have to quit. Everyone who knows me knows that I talk too much, but I would just say that organic ag is a growing industry. It is an agriculture that can be a vehicle to help the floundering small- and medium-size farms survive and a vehicle to save our most valuable resource, the land.

I would also like to say that a week from today at this very place at ten o'clock is a biomass—the Union of Concerned Scientists is—and Alan Teel, our extension agent in this county, is having a biomass meeting, and it is like from ten o'clock to noon next Saturday morning, so I would like to encourage the farmers to come here and learn about some biomass production.

[The prepared statement of Ms. O'Brien can be found in the appendix on page 87.]

Senator HARKIN. Denise, thank you very much.

I forgot to mention that we have a new member of our agriculture committee. Senator Ben Nelson from Nebraska is now a member of our agriculture committee. He could not be here, but his staff member, Sonny Foster is here. Where is Sonny? Thank you for being here, Sonny. If any of you want to get anything to Ben, Senator Nelson, please just give it to Sonny.

I just want to followup before you start, sir, on what Denise O'Brien was saying. Maybe what Mr. Duffy was saying, that we have 92 percent in a couple of crops, and, sure, we have moved in that direction. I know that organic cannot be forever. It is not going to replace it all, but maybe there is a lot of other little things like that we can do around the state to help buttress and help provide some really good support and income support and—for rural communities. Organics is one of them.

I know around the Washington D.C. area they have got a grocery chain called Fresh Fields. They cannot build them fast enough. People drive for miles to go to them, and they do all this organic food, organic lettuce, organic meats, and all that.

Someone told me that they were selling pork, Sam, to this Fresh Fields, organic pork or something, and where was it I read this? Fresh Fields was buying all the organic pork that is being raised today, and they cannot get enough.

There are some niche markets out there for operators. There are some niche markets out there. Perhaps we ought to take a look at that in the next Farm bill to see what we can do.

I might just mention one other area, and that is energy production. Somebody mentioned biomass. We have a project going on down in Southwest Iowa. Any of you know about the switch grass project that we have? How many of you know about it? The information got out decently anyway.

We have about 4,000 acres of switch grass going down there now, and we are burning it in the coal-fired power plant in Ottumwa. We just finished the first run this winter, and all of the results look very good and there is more B.T.U. in a pound of switch grass than a pound of coal.

If we can utilize CRP acres for switch grass and use switch grass to provide energy, not going to replace all the coal, but I think I have seen figures that with just a modest use of our CRP ground

in Southern Iowa, we might replace about seven percent of the coal coming into Iowa.

That translates into several hundred million dollars every year that would stay in the state rather than going outside the state, so I think we have got to start thinking about these kinds of things, aside from wind energy and stuff like that, but I think there is a great potential for biomass.

Mr. DUFFY. May I interrupt? I am involved with that project down there. I have conducted and done the estimated cost of production of switch grass.

Senator HARKIN. Yes.

Mr. DUFFY. That publication, it is in the press right now, but one of the issues and the reason I wanted to bring it up is because right now our costs of production are a little bit higher than the coal that Alliant Energy, they can purchase the coal cheaper, and I guess the reason that I am bringing this up is because this is an area where maybe if we could look at an energy crop subsidy or something like that or definitely more research into trying to get the yields up. Because what we have found is obviously the higher the yields and then the lower the cost would be.

Senator HARKIN. Sure.

Mr. DUFFY. This does need more work, but I think it shows a lot of promise. That was what I was going to allude to. I am sorry to interrupt.

Senator HARKIN. Just a research project then?

Mr. DUFFY. That is correct.

STATEMENT OF GAYL HOPKINS

Ms. HOPKINS. My name is Gayl Hopkins. I am active in the Iowa Corn Growers and Environmental Issue Team, and before I—I would like to focus my comments concerning the Conservation Security Act, but before I do that, I would like to make just one response to what was said earlier.

Their comment was about Dr. Duffy's provocative comments. My personal feeling is that maybe you have understated the importance of management and size, that the management skills I believe are an extremely important issue in size of operations.

First of all, I would like to—just getting back to the Conservation Security Act, I would like to, first of all, say that I believe it is the hot issue in agriculture right now, and I would like to talk a little about why I think that is the case, and, second of all, I would like to talk about why we as farmers should support it.

Mr. Askew here, his organization has come out in support. The American Soybean Association as well as the Iowa Soybean Association has supported it. The National Corn Growers have endorsed the concept of it.

We had a delegation there this past week. The Iowa Farm Bureau had a delegation there this last week. The Farm Ag States Group, which is a group of ag commodity groups in Iowa, have been discussing this issue. Carol Balvanz from cattle has made some inquiries trying to understand what pasture rotation would mean, as far as payments for pasture rotation would mean, what about manure management and livestock. There has been some inquiries.

I understand that the EPA has asked for conversations looking at what this would mean environmentally, so I really think this is an issue that is Senator Harkin's bill, our Senator's bill, and I think we ought to look at it hard, and I personally feel supportive.

The reasons why I think we should support it is I was in my FSA office yesterday, and I think the LDP on beans was \$1.17. There are—I do not want to change the payment—the way the farm program is working, but there are limits to trade-altering payments that a farmer getting \$4 for his beans but getting an additional 1.17 from the Federal Government, what that does to trade. We can do some of that. That is built in to our trade agreements, but there are limits to what we can do.

In the area of conservation, there are not limits. They talked about a green box earlier. We need to be looking at other alternatives to assist farmers besides these direct payments that we have been doing, or maybe I should say, in addition to them, because I do believe there is some limits, which I think is going to give us some trouble down the road.

In our environmental issue team, we have been dealing with impaired waters, TMDL, which is Total Maximum Daily Load, of either phosphorus or nitrogen in streams and who does what and who should do what and things like this, and we have had—the EPA has come—bypassed DNR in Iowa and declared hundreds of water bodies in Iowa as impaired waters.

We are facing—to have to deal with this. Now, as an organization, we can say things like, what about the cities? What about the 65,000, excuse me, contractors who in the evening clean gas stations, lots, parking lots, things like this? That all goes into the storm sewers.

If we focus upon what is wrong with everybody else and not with what we can do to improve our own situation, we will be looked at like the tobacco industry as being in denial, and I think what we need is some way to assist farmers to make cleaner water and cleaner air, but when they passed the Clean Water Act of 1972, there were billions and billions and billions of dollars spent every year for these municipalities. We have challenges but no money.

Senator HARKIN. Gayl, I have got to move on. We have got some other people here waiting.

Ms. HOPKINS. OK. My last two points are: conservation needs broader support—excuse me, agriculture needs broader support if farmers are to receive payments. The public says, “What is our money being used for?”

The last thing I would like to say is that conservation, or being good stewards of the land, is the right thing to do.

Senator HARKIN. Thank you.

STATEMENT OF HAROLD SWANSON

Mr. SWANSON. Thank you for the invitation, Senator Harkin. It is nice to see you again.

Senator HARKIN. Yes. For her.

Mr. SWANSON. Harold Swanson. I am retired head of the Iowa Western Community College ag department and have a farm and 14 years in ag business, fertilizer, ag chemical, and grain, and we have—so I am a member of Ag Connect Board of Directors, which

is trying to connect farmers retiring with the current operators, retirees, and I also am on the—a member of the National Farm and Ranch Business Management Education Association.

Senator HARKIN. All right.

Mr. SWANSON. Which was started in 1952, and I was one of the original ones that started it as part of the Minnesota Vo Ag Farm Management Program in Minnesota in 1952.

The grain company offered the Minnesota Department of Ag Education a nice grant to start a farm management program, and out of 500 ag teachers who were offered these things, 15 of us took the challenge. I have been with it, and I have a tremendous collection of records, so—but that is just the background.

Senator HARKIN. Right.

Mr. SWANSON. Now, I am going to pick a little niche with my discussion today, and I will give you a copy of it. I will just read it so we can get it over with real fast.

Maybe Congress can change the LDP system a little this year to a program that will really benefit the small farmer, instead of set-asides that cannot be initiated because of the time factor and the provisions of the 1996 farm law. The regulations for the operation of the LDP program have not been absolutely set.

Now, I am—Based on what I have read in the regulations, I do not think the final—because I see there is some changes in the way they have set up the LDP, so I am thinking that for 2001 some things can happen.

This is what I am suggesting: Let us set up an LDP so the payments will be made available to bushels produced or not produced based on a formula that calculates the portion of the crop that a farmer would be entitled to if he was producing what was his share of the estimates usage based on the percentage of the expected crop that is calculated in July when the total certified acres are known and the government has made the estimate for the average yield and the estimated usage figure for 2001–2002 period and the expected carryout as of September 1, 2002. This system would be an additional help for the farmers suffering from drought and other disasters.

Here is how it would work: The bushels that a farmer would be able to LDP would be based on the percentage of acres needed to produce the usage figure at average national yield developed for the crop in relationship to total acres planted.

If the acres needed would be 85 percent of the planted acres, then each farmers' share would be 85 percent of his planted certified acres times the national average yield as his LDP bushels, whether he produced them or not.

This method provides some badly needed incentives to let the high-yield producers recognize that they are part of the overproduction problem, and since there is no willingness to set up alternative programs for producers on marginal land who have little chance for profit, even with the very favorable prices, but contribute heavy to the oversupply, this program would help the small farmer.

Senator HARKIN. Thank you. I have a vague idea. What you are saying is you take what the total national usage would be, you figure the amount of crop acres that would be needed basically on an average basis to produce that, then you get a percentage of what

every farmer based upon, I assume, some kind of crop history or something like that, that they would be eligible for as their percentage of that total.

The only question I have on that: Does that not still provide the bigger farmers with the bigger payments, and do we not still get back to the same kind of rut that we are in now?

Mr. SWANSON. No. Because, first of all, you are going to be dealing with the average national, so this guy that has got big acres, big high yields, is only going to get the—his LDP on national—on national yield.

Senator HARKIN. OK.

Mr. SWANSON. The guy who is producing 100 bushel on some of the marginal land, he would get the national average times his acres.

It would be a very definite payment to the marginal producers, which we need some help.

[The prepared statement of Mr. Swanson can be found in the appendix on page 91.]

Senator HARKIN. Give me that information. I will take a look at it. I do not know that I understand all of it.

I am told by Mark we only have about 30 more minutes, and so I am going to try to move as rapidly as I can.

STATEMENT OF JOYCE SCHULTE, SOUTHWEST COMMUNITY COLLEGE

Ms. SCHULTE. Greetings, Senator Harkin, Joyce Schulte.

Senator HARKIN. Good to see you again.

Ms. SCHULTE. Thank you. I am representing community colleges, students, work for a TRIO program at Southwestern Community College.

Part of that criteria group are low-income students, many of them needing food stamps. Various things stand in their way. Now, I love to feed the world, but I would like to feed the world starting at home in our colleges.

I do not know if there is some way to connect the students' academic success via a TRIO program and food stamps or not.

I am going to be real brief and stop at that in contrast to my normal style. Thank you, sir.

[The prepared statement of Ms. Schulte can be found in the appendix on page 92.]

Senator HARKIN. Thank you very much. Food stamps TRIO program. Got it.

STATEMENT OF ALAN ZELLMER, FARMER/PRODUCER

Mr. ZELLMER. Senator Harkin, my name is Alan Zellmer. I am Alan Zellmer.

Senator HARKIN. Spell that last name for us.

Mr. ZELLMER. Z-e-l-l-m-e-r.

Senator HARKIN. OK.

Mr. ZELLMER. I am a local farmer/producer. I guess the first thing we raise is kids at our place, and then it trickles on down to corn, soybeans, cattle.

I am going to come at you from the issue of: I have got involved with a group that produces cattle for a specialty product. It is Wagyu cattle.

Senator HARKIN. Yes.

Mr. ZELLMER. I can agree with the 40 percent tariff.

Senator HARKIN. I am familiar with that.

Mr. ZELLMER. We ran into that 40 percent tariff, and now the cattle that we do raise are sold domestically here to fine restaurants and markets.

Senator HARKIN. You have an operation up around Perry? There is somebody up there producing Wagyu.

Mr. ZELLMER. That could be.

Senator HARKIN. I just know, and they are doing a good job of marketing.

Mr. ZELLMER. You bet. I am from Atlantic, is where I am from.

Senator HARKIN. Where do you market yours?

Mr. ZELLMER. Ours actually ends up in the finer restaurants now here in the United States. There is enough Oriental people that travel here and live here that they are looking for the product.

Senator HARKIN. Interesting.

Mr. ZELLMER. The product in Japan sells for around \$64 an ounce, and when they come over here, we can kind of sell it to them at a bargain rate.

I have worked with an investor that ventured into this, and there is a potential to bring a premium to just area cattle producers. They do not have to change anything in their operation other than the semen that they are actually using with these cattle, and where the potential top is on this, we do not know. We are going to let the market dictate more so than we do in the corn and soybean part of our operation.

Now we started a feedlot to work into this project, and now actually when we started in the project, we had an engineer come out and tell me, what do I really need to do as far as manure management and things like this.

There was some pretty basic and simple things that we had to manage. Now I had my DNR visit, and it is my understanding that the EPA was sued and, in turn, put pressure on the DNR to bring this Clean Water Act up to date.

Senator HARKIN. Right.

Mr. ZELLMER. I agree that there are places that we need to change and fix things, but we also need a lot of time and a lot of definition as to actually what we have to fix.

Senator HARKIN. Yes.

Mr. ZELLMER. Because just being one producer, I cannot really get a straight answer from anybody.

Senator HARKIN. How many head of production do you have, how many cattle?

Mr. ZELLMER. I work 1,600 right now.

Senator HARKIN. You are over the 1,000 cap?

Mr. ZELLMER. Right. I hate to get into all those abbreviations, because I have not been involved with them enough to know them.

Senator HARKIN. Not all of that is Wagyu?

Mr. ZELLMER. Yes.

Senator HARKIN. You have got 1,600 of Wagyu. Is that right? You have got a market for all of that?

Mr. ZELLMER. Yes. The thing that—I am all for Southwest Iowa every way, shape, or form. It does not have to be just my operation, because there is other area producers that are saying, “I will just shut down versus comply.”

Senator HARKIN. Yes.

Mr. ZELLMER. We are looking at \$100 to \$150 a head per pen space to get up into compliance and then we have operational costs besides, and everything that goes in the front of those cattle comes off the land, and everything that goes out the back—

Senator HARKIN. This is one area where we cannot forget about our livestock people in Iowa, this is both pork and cattle, for our value-added products.

We have to recognize that we have to now meet some of these environmental standards. We have to recognize that.

Mr. ZELLMER. Sure.

Senator HARKIN. You cannot just dump it all on the individual producers. Just like I am talking about my Conservation Security Act, I think what we have got to do is figure out some way—now, I am looking for suggestions on this—on how we help people like you to meet these things without, you say \$150 a head. I mean you cannot do that.

We have got to figure out some way of coming in with some supportive mechanism both on the national and the state level—

Mr. ZELLMER. Yes.

Senator HARKIN [continuing.] Here in Iowa to keep you in business and keep our cattle producers in business and yet meet these more stringent environmental standards we have to meet.

Mr. ZELLMER. I would love to be involved with it.

Senator HARKIN. I am looking for suggestions, so if you have got any thoughts and stuff on that, I am open for anything that we can start building in, as I said, both national, but something has got to be done at the state level too. There has got to be two ways on that.

Mr. ZELLMER. I will stay in touch with you on what I can find.

Senator HARKIN. Any suggestions you have got on that, because I recognize we have got to do this. We have got to help producers meet these standards.

Mr. ZELLMER. Sure. OK. Thank you.

Senator HARKIN. Thank you.

Mr. ASKEW. We need to be on the front line of this as for working out systems to document what we are doing out there. What we are trying to do is associate—and as we talked to you a little bit about the CEMSA program, but we are looking at environmental management systems for all of agriculture, so for the pork producer, for the cattle producer, also to have a framework out there to show—to be able to assess your own—what you are doing on your farms, to look at what practices you can do, and then use these before regulations come out.

Because with production agriculture, they will be coming, so we have to be on the front line of this, and we will work with you on that to help develop those processes.

Senator HARKIN. That is good. You are right. It is coming, so we better get on the front end of it. Actually, we should have gotten on the front end of the livestock situation some 20 years ago. We did not do that then either. Yes, go ahead.

STATEMENT OF ERWIN AUST, SHENANDOAH, IOWA

Mr. AUST. Thank you, Senator Harkin. Glad to have this opportunity. I am Erwin Aust that lives in Shenandoah, Iowa. I am an assistant commissioner with the Page Soil and Water Conservation district along with Dave Williams up there, and also I am a board member of the Iowa Watershed.

Our organization supports the planning and treatment of conservation needs of soil and water resource development—watershed bases, and—because of conservation needs cannot be often solved on the individual farm.

We certainly support or appreciate the support you have given to the conservation efforts, Senator Harkin. I would like to address primarily the Iowa Watershed Organization's supports project like the PL566, Little Sioux Water Quality Project, Hungry Canyons, and those type of programs.

Today I would like to primarily address the 566 program. It is operated in about 36 counties in Iowa, and currently there are projects authorized in about 22 counties.

Funding nationally was cut in half in 1993, and that was primarily to shift the money in the direction—the emergency Midwest flood that we had in 1993 with the intent we were told to restore 1994, 1995, and which has never happened.

The program in Iowa had operated by a four, five million dollar level. Recently they have gotten about a million dollars a year.

This year only \$360,000 was allocated to Iowa. Back in the Page district, we do have the Mill Creek watershed. It was receiving some pretty good funding, and there is a lot of interest in the county, and it was helping with the land treatment work and so on and helped quite a bit in terms of trying to relieve some of the backlog of individual farmers that wanted to apply practices. Mr. Williams well-documented in his remarks kind of the backlog of interest that exists among individuals.

This program, like the Mill Creek has not received any funding or very little in the last several years, since the 1993 cutback.

To wrap it up, there is over—like over 50 projects in Iowa that have made a large impact on rural development, meaning flood control, erosion control, water supply, recreation, wildlife improvement needs, and that sort of thing.

I will wrap it up there to save some time, and mainly our comments address supporting the existing programs and—as well as addressing the new aspects, and that is one area of existing program that is successful, like to support.

Senator HARKIN. I appreciate it. We have got, I forget, how many small watersheds that we have got now that over the years have basically filled up, and they need to be cleaned out and refurbished. Several thousand in the state of Iowa, if I am not mistaken.

Mr. AUST. In the neighborhood of 1,500 structures in Iowa, and there is probably hundreds of those that are approaching a 50-year life, and some legislation was passed a year ago to allow funding

to help local communities restore those, and that is part of that package also.

Senator HARKIN. Yes. 1,187 in Iowa, and there is 2,200 that need immediate rehabilitation. 284 in Iowa that need immediate rehabilitation. Thank you.

Mr. AUST. Thank you.

[The prepared statement of Mr. Aust can be found in the appendix on page 93.]

STATEMENT OF DAN JORGENSEN, FARMER, AUDUBON, IOWA

Mr. JORGENSEN. Senator Harkin, glad to have this opportunity, and please bear with me. I have never done anything like this before. I am Dan Jorgensen. I am a farmer from Audubon County. I would like to address two issues, one is our energy issue, and as you see from my shirt, I am a Tall Corn Ethanol, building a plant at Coon Rapids, Iowa, and—as a value-added project for agriculture.

This is a very important project, so I think whatever help you can give us in value-added projects as far as in the fuels, I think that is very important as far as less dependence on foreign oil, and then we develop a better market for our own commodities. It is a real plus, and I have been involved in this, and we hope we can make an impact on our area economically.

The other area I would like to address, maybe I would like to put this in quotes. Maybe I am one of those “evil, large farmers.” We farm 4,000 acres. There are two husband-and-wife teams directly involved in management and ownership of this farm.

Senator HARKIN. Yes.

Mr. JORGENSEN. We impact six families. We rent from I think eight retired farmers. We rent from two investor farmers, and then we own a little bit of land ourselves, so I think as we talk about changing this, it does have a lot of economic impact on Iowa and on different farms. You know, we cannot just go in and cut everything down and say we are only going to help out that 300 acres. Maybe that is not a—Maybe that is a pipe dream of the past to some extent.

Our economics have gone beyond that. I do not think—You cannot afford a \$150,000 combine on 300 acres. It is—It just does not work out, and so the economics have driven this. As Dr. Duffy said, we cannot just go in and wipe everything out. We have to be very careful, and hope we can make these changes, and hopefully we can make some improvements on this.

The idea of the minimum wage, just that struck me as, I would not want to pay the people that work for me minimum wage, and so often minimum wage gets tied to substandard living, and I do not think that is what we are looking for in agriculture.

We need to—Just like when we are developing jobs, we do not want those as poor jobs. We want them as good jobs. I am not saying Dr. Duffy’s idea does not have some merit to look at, but that to me is a little bit of a scary possibility. As we look at minimum-wage jobs in our society, they cannot support a family, and we are about—

Senator HARKIN. That is true.

Mr. JORGENSEN [continuing.] I enjoyed the fellow's comments about raising kids. I just had my granddaughter here this last week, and I still have her tape in the car, and we need to have good economic stability too. We cannot just cut everything off, and it would be a train wreck, and we went through that in the 1980's.

Senator HARKIN. OK.

Mr. JORGENSEN. Thanks for your time.

Senator HARKIN. Two things I would just say on that, Dan: First of all, one on ethanol. One of the things we are looking at is changing some of the tax structures. The cooperative building of ethanol plants is kind of what we are looking at, what we are seeing happening out there, but you do not get the kind of tax advantages that, say, a private entity would get, so we are trying to figure out how to change the tax structure to give the same tax benefits to cooperative owners as to, say, the bigger, privately held ones, and so I think there may be some changes in that regard.

Mr. JORGENSEN. That is very important, because there are 442 member—investor members, and the bulk of those are producer members in this cooperative, and so that is important to get that—some of that help, and also if—put in a plug maybe for the—I do not know the number of the bill or whatever it is, but on the Commodity Credit Corporation's reimbursement to—like the increase grind or increased usage of corn and feed grains.

Senator HARKIN. Yea.

Mr. JORGENSEN. We hope that may be expanded or extended, the time period on this, because that would be a real help in developing value-added projects in your grains.

Senator HARKIN. Exactly. I just want to make sure, I have never said this, that larger farmers are evil.

Mr. JORGENSEN. No. I use that—Like I said, I put that in quotes.

Senator HARKIN. The only questions we are asking basically and from the farm policy standpoint is: Do the programs, the Federal programs that we have now, does it tilt the playing field, and if it does, do we want to do that or do we want to do something else? I am just sort of asking those questions.

Mr. JORGENSEN. Yes, I would have never dreamed 15 years ago that we would farm that number of acres. It does tilt that playing field, to be honest about it.

Senator HARKIN. Yes.

Mr. JORGENSEN. I have never went out and asked anybody to rent their farm. To some extent some of those people—We did rent one other farm this year, and that guy came and said, I do not think—I am going to rent it out now so I can start selling some of my equipment because I cannot replace it with new stuff.

Because the economics he was farming 300 acres, and the economics were not that we could pay—He is 62, and he was going to work for us part-time, to help us out part-time, which we were grateful for, so there is a lot of things involved.

I just never would have dreamed that our farm would have got to be that many acres either.

Senator HARKIN. Thank you very much.

Mr. JORGENSEN. Thank you very much.

Senator HARKIN. I appreciate it.

STATEMENT OF FOX RIDGE FARMS, CARSON, IOWA

Fox Ridge Farms. Fox Ridge Farms, Carson, Iowa. I am one of those 13 percent, or we are, that—of the top dollar amount on it. I can remember farming, and I was in it when it was all organic. I have been around that long.

As I listened here to all the discussion, it is all economics. Our operation, which is cattle and hogs, corn and soybeans, and alfalfa on it, we do it with two boys and myself on it.

I would like to say that our income is not the 55 percent that we get from the government. There is evidently somebody getting a lot of money that we are not getting from the government, but I want to reiterate, we have had a livestock operation that has been very profitable, up until a few years ago. We dropped the hog operation, approximately 4,000 head at one time, because of the environmental people and things like this and cost, what we have to do to keep the operation going.

Two weeks ago we sold our last cattle. Well, we got one head left, last cattle, on it, and we—in farming it seems like we have to deal with many government agencies on it, and we are getting to the point that we do not feel like we want to fight it anymore. We have to spend so much money to keep this operation going.

We have personally put out—and we have terraced all of our ground and put out approximately \$120,000 of our own money on it to do this in order to farm.

Now in order to raise cattle, we are going to have to spend a lot more money, and at my age and my boys' age, I do not feel that we want to do this. This is—all these government agencies is going to close down many of the livestock organizations in this state, and it already has in the hog operation, and it is going to do it in the cattle operation on it.

I would like to see, and I think the answer to your problems in agriculture is the overseas market. We do not have it.

Like when Russia invaded Afghanistan and Carter shut down shipping agriculture products over, that cost me a lot of money when he done that, because I had a lot of beans on hand which was going to be shipped on it. You know, I would like to see what they can do to get our products overseas, and I do not know how you are going to do it, because their cost of operation is much cheaper than ours, and I think we are pretty efficient too on it. Thank you.

Senator HARKIN. Thank you very much. Appreciate that. Yes, sir?

**STATEMENT OF ROD BENTLEY, PRESIDENT OF
POTTAWATTAMIE COUNTY CATTLEMEN'S ASSOCIATION**

Mr. BENTLEY. Hello. My name is Rod Bentley. I currently serve as president of the Pottawattamie County Cattlemen's Association, and on the pollution thing, we are very concerned about clean water. We want our kids and grandkids to have clean water.

Senator HARKIN. Sure.

Mr. BENTLEY. The zero run-off 100 percent containment thing for most of us is going to make it very financially difficult to stay in business, as some of the other guys have said.

We think filtration, sediment control and filtration, would be a viable project. We need more engineers to help design things.

Senator HARKIN. Yes.

Mr. BENTLEY. That is—

Senator HARKIN. You are saying that the zero tolerance is going to be detrimental for you?

Mr. BENTLEY [continuing.] It will put probably 90 percent of the cattle feeders out of business.

Senator HARKIN. Again, what I am looking for is—I am not certain I can overcome that, but what I am looking for is: How do we provide the necessary support?

Because obviously it is a societal benefit. If we are going to start the project, everybody benefits, so why should the burden just be on you? Why should we all help in some ways to help build these structures or tanks or lagoons or whatever you need and to help support the proper application of that on land as a fertilizer?

Mr. BENTLEY. Exactly.

Senator HARKIN. That is what we are trying to do, so if there is any advice you have on that or any ideas, I am looking for it, OK?

Mr. BENTLEY. Well, I think filtration—

Senator HARKIN. Well, what we are talking about is better filtration strips and buffer strips and things like that, sure.

Mr. BENTLEY [continuing.] Yes. The 100 percent containment thing is just you are going to put lagoons all over the country that have the possibility of busting—

Senator HARKIN. Yes.

Mr. BENTLEY [continuing.] Possibly causing a lot of trouble. Grass filter strips, those things I think are just something that would be a better deal. There are places where there is feedlots that are not where they should be. We all know that.

Senator HARKIN. True.

Mr. BENTLEY. Some of them need to move.

Senator HARKIN. I understand.

Mr. BENTLEY. It is going to cost us a lot of money. We are the medium size I guess, and I have a son that farms with me, and we want to keep farming.

Senator HARKIN. Again, we have got to take a look at farming animal waste. You know, I never called it “waste” when I was a kid. Anyway, we never called it that, but anyway, we looked upon that as a pretty valuable resource.

Mr. BENTLEY. Exactly.

Senator HARKIN. With some jiggling of the System and System supports it could be used once again, as we did in the past.

Mr. BENTLEY. Sure.

Senator HARKIN. Absolutely.

Mr. BENTLEY. Thank you.

Senator HARKIN. Thank you. Yes, sir? This is it. OK.

STATEMENT OF RON BROWNLEE, ADAIR COUNTY

Mr. BROWNLEE. I am Ron Brownlee from Adair County. I am on the Soil Conservation Board, and I am also a farmer in Adair County. One thing I think we forgot here is health care for farmers. I know in the last few years mine has nearly tripled. Mine went up 32 percent last year. That is a lot of increase. That is one thing I think we need to look at.

Another thing, your conservation act. I have been excited about that ever since I heard about it. I was at the summit meeting in Ames last year, and I think this is the right direction for family farms to go, to give the money to the people that are doing the good job out here instead of rewarding the people that are causing the problem.

Senator HARKIN. Exactly.

Mr. BROWNLEE. Another thing that I am concerned about is pasture land going into CRP. If we put pasture land into CRP, it has to be cropped two years, so we are encouraging people to raise a crop that we already are overproducing, so why are we doing that? If we are going to put pasture land in CRP, why do we not just put it into CRP? It is rough ground, probably should not be tilled anyway.

Another thing is, we are not getting enough money for conservation. In our county, we probably—our REAP applications, we maybe get 5 to 10 percent of the applications approved because there just is not enough money for them.

As far as value-added, I think soy diesel, our ethanol is the right way to go. We need to be processing more of our products here in our own state, instead of—we ship out 80 percent of what we grow. We need to process it here and then ship it out. That would bring in employment into the state and would help our own state.

Senator HARKIN. Absolutely.

Mr. BROWNLEE. Thank you.

Senator HARKIN. Thank you very much. You are right about health care issues. It did not come up here, but I hear a lot about it. I get a lot of letters and calls on the health care costs for farmers and their families. You are right about the pasture and the CRP.

This is another one of the things we are looking at. We have for the about 34 million acres in CRP right now, and the authorized level is 36 million, 36 point something, but when the initial bill was passed, and I was involved in that in 1985, we authorized 40 million, and it was dropped down to 36.

There are some people pushing that the CRP thing ought to be raised. Again, a lot of the wildlife people and the hunters and that type of thing are pushing for 44 million acres of CRP, and I do not know.

I am kind of thinking that may be a bit much, because maybe we could boost it to 34 million, up some closer to 40 million. I do not know. I do not know how people feel about that.

STATEMENT OF BILL ORTNER, FARMER, DANBURY, IOWA

Mr. ORTNER. It hurts young farmers. Bill Ortner, Danbury, Iowa. My brother and I farm 4,000 acres, and we have two young sons that are trying to start farming, and our land around Danbury is very hilly, but we use good conservation practices. Our land is about all no-tilled or otherwise terraced, one or the other, and we have got two sons that are trying to start farming.

As you talk, increasing the conservation program, it sounds very good to the public, but all it does is encourage outside investors to come in and buy our land and raises our land prices so we cannot start—I have got the only son here I think that is 20 years old that

wants to farm, and I have been sitting here and listening to a lot of the rigamarole, and we have got to get back to the basics.

We have got to be able to get young people. Mr. Duffy said it, we have got more farmers over 62 years old than we have got under 35.

I am also a local Pioneer sales rep, and I have got 100 customers. I lost nine customers last year. I will lose another ten this year.

This thing is as serious as it was in the 1980's, and nobody realizes it. You can tell by my voice I am upset, because this is so important right now.

What you decide in the next 5 years on this farm program, in my belief, will decide whether we have corporate farming in this country or whether we have family farms. We need—we need a grain reserve program so bad. Because another thing that is so unbelievable is that we keep trying to raise Federal crop. That is the wrong thing to do.

When you raise Federal crop subsidies up and you make 85 percent Federal crop, it lets the large farmers—I have got farmers in my area farming 17,000 acres, gives them the ability to go out and borrow the money and rent the land away from even us.

I mean you are talking about 300 acre farmers. That is in the past. They all have full-time jobs, because Mr. Duffy said it: You make 20 percent return on equity. OK, an acre of corn, if you can produce \$300 off of that is fabulous, but 20 percent is only \$60 an acre. 300 acres is \$18,000. No family can live on \$18,000, because the man said, his health insurance went up. Most of our health insurance is between \$5 and \$10 thousand a year.

I cannot believe it. We have all come here and talked, but we have really never said the true problem, and I would like to talk to you personally. I could talk a long time, or my brother has been calling you. Cannot think of your name.

Mr. MORELAND. John Moreland.

Mr. ORTNER. John Moreland, about once a month because we are so concerned, and I can see things changing so fast, and it is just a vital concern, but getting back to the CRP, I am sorry—

Senator HARKIN. What if most of that CRP was in the buffers?

Mr. ORTNER [continuing.] Well, that would be a good point, but, see, do not make it as CRP, because he has got to rent land. He cannot afford to buy it, so what we need is more set-aside.

Then—I know all of the Soybean Association, they do not want set-aside, but we have got to have it, because then the set-aside—and pay us for the set-aside to make buffer strips and to take the worst 10 percent of our soil out of production, because then he benefits from it and not the landlords. Otherwise, if you talk CRP, the landlord gets all the money, not the young person trying to rent the farm.

Senator HARKIN. Fair enough.

Mr. ORTNER. Thank you.

Senator HARKIN. I cut someone off.

STATEMENT OF DAN MORGAN, FARMER, CORNING, IOWA

Mr. MORGAN. My name is Dan Morgan. I farm in Corning, Iowa, member of the Wallace Foundation for 10 years. I agree with a lot of what people said today. I disagree on a few things. I like the

LDP program because it ensures me there is never going to be a surplus. I know 4th of July that I better have my grain sold because it is probably going to be cheaper.

A few things: CRP program he is talking about, two-year history on CRP: I was paying \$35 an acre two years ago for pasture. Last year it cost me 83 cents per cow/calf unit per day, \$25 a month. That is what it figures out to.

What they are doing in Southwest Iowa is taking the two-years, getting it into the CRP, taking it away from myself and the young son I am trying to bring into farming. Exactly what he says. When young people—you start farming, they get the marginal land. The marginal land is now in CRP. What I rented for \$35 an acre two years ago is 90 bucks an acre CRP now. No fool would rent it to you for that.

Senator HARKIN. Yes.

Mr. MORGAN. The second thing is: Don Stenholm the other day was having a hearing with the National Wheat Growers Association, and they said to him: "We need more money." He says to them, "There is no more money." "If they cut the budget," he said, "the only place that money will come from is Social Security and Medicare." I know damn good and well that two percent of the farmers are not going to be able to take on the aging population and take away their Social Security and Medicare. I agree with that.

Third thing is, I think the LDP program works, but I think there needs to be a cap on the amount of bushels you can collect per year, and the reason I am saying that is because a year ago they had a drought in Indiana. Those guys raised 35, 40 bushel an acre of corn some places. They do not get any LDP. We are raising a good crop. We get a big LDP. We need to take care of everybody, but we need to do it equitably.

Senator HARKIN. Make it a bushel-based program?

Mr. MORGAN. Right, exactly. The other thing is: I will seed down some of my land if you will give me the LDP I have had for the last two years.

Senator HARKIN. Yes.

Mr. MORGAN. I will not raise any corn or beans on it, and I will raise hay and pasture on it.

Senator HARKIN. Continue based upon what your history has been for the last couple, three years?

Mr. MORGAN. Right. It looks like to me it would be an economic incentive because you are guaranteed you are not going to get any of that—any more corn and soybeans from me, but if you will give me the average LDP. Thank you.

Senator HARKIN. I like that. That is a provocative idea.

[Laughter.]

They are trying to get me out of here. I have got to get to Spencer.

STATEMENT OF JIM HANSON, NEW MARKET, IOWA

Mr. HANSON. I just wanted to make one comment to the gentleman, concerning that. You mentioned something about the buffer strips. We have seen this. Buffer strips has gotten a lot of publicity, but in a lot of cases though we are reestablishing buffer

strips where a few years previous were naturally established, but producers have come in or people have bought this property and stripped them out, so we are paying for the raping of a land literally that should not have happened in the first place.

I have never been a real—It took a long time for me to be a proponent of CRP. I realize all the good that has come up out of it, but in my county, a lot of the CRP did not—where we—this was ground that would be farmed by the young farmers, as the gentleman said, and what happened, it became—the landlords and the people instead of passing it on just kept on and saw the availability of utilizing this to their benefit, and you cannot blame them, but a lot of them potential young farmers have left.

Whatever program or however we develop a program, there is going to be some way that someone is going to find a way to counteract it.

Senator HARKIN. Well, we certainly know that.

Mr. HANSON. Excuse me, my name is Jim Hanson. I am from New Market, Iowa.

Senator HARKIN. Never underestimate the ingenuity of farmers to beat this farm program.

[Laughter.]

Senator HARKIN. Any other concluding statements before we take off from any of the panelists who are here?

Mr. DUFFY. I would just like to say thank you very much for the opportunity. You and your colleagues have a tremendous job in front of you, and I agree wholeheartedly. What you decide here is going to decide the fate of agriculture and which direction we want to go, and so I wish you well and God's speed.

Senator HARKIN. It is a heavy load.

Mr. WILLIAMS. We have to look at the state of Iowa, the individual farms, and land we are on. We have to look at watershed. I was talking about a small stream runs through my farm, and I think the biggest thing that is happening right now in society is that the money that we have got to put in buffer strips, the filter strips, and I think we can do a tremendous job of cleaning up that water.

Senator HARKIN. All right, Dave.

Mr. ASKEW. Yes. Thank you for the opportunity to speak to you. I know I cannot let you go without talking about our river infrastructure and support for the locks and dams on the Mississippi, and also we have the small river on the west side of the state, the Missouri, which we need to make sure with the plans that are coming out that we have—to use sound science.

We have to understand that and realize that those river systems are vital to our exports and also just to our internal ability to market our grain. Thank you.

Senator HARKIN. I understand.

I am glad you brought that up. I support that wholeheartedly. In order for us to get our grain to the ports, we have got to have our river traffic. We have got to upgrade those locks and dams.

Quite frankly, to those on the environmental side that are opposed to that, I say that is the most environmental thing that we can do. If we do not repair those locks and dams and utilize the natural flow of water to haul our grain down to New Orleans, it is going to require I think a couple of million more trucks a year

up and down those highways just to carry that grain, and that is environmental pollution. That beats up our highways. That tears things up. I mean this is probably the most environmental benign thing that they can do.

Ms. FREDERIKSEN. Just a comment about adding value to our crops here. That is very important, and anything we can do to streamline things such as soy diesel or ethanol or the alternative energy sources I think would be a great benefit to make it easier to adopt those items.

Senator HARKIN. I am looking again for these like niche little things. If there is something that people can start growing grapes or something again in the Loess Hills, there ought to be some way to really help them to promote that. I mean if they can provide some income for a couple, three families or half a dozen, that is good. We have to look at things.

Mr. CARNEY. Senator, I want to thank you. I guess we have touched on conservation, trade, market, environmental, food safety, biosecurity today. I realize that new markets are important. Everything we talked about today is important.

Personally, I figure the environmental and the new regulations that are coming and trade is probably our huge, top priorities, but good luck and if you ever need any help, call.

Senator HARKIN. Thank you, and I appreciate all of the input from the different associations, the Pork Producers, the Farmers Union—

Mr. LEHMAN. I also want to thank you for coming today, and I hope to encourage you to do more and more of these meetings around the state.

Senator HARKIN [continuing.] This is the first. We have another one today in Spencer. Believe me, we are going to be having more of these kinds of hearings. I need all the input we can get before we start hammering down this Farm bill.

I thank you all, some of you coming a great distance. Please feel free to either e-mail me, write, call. Some of you said you have been calling Moreland. Any thoughts, suggestions you have for input on this Farm bill, please let me know.

Again, I thank you all for being here.

[Whereupon, at 11:35 a.m., the committee adjourned.]

A P P E N D I X

MARCH 24, 2001

U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
HEARING ON AGRICULTURAL AND RURAL COMMUNITY ISSUES
SENATOR TOM HARKIN, CHAIRMAN
MARCH 24, 2001

Today I am pleased to be holding in Iowa two hearings of the United States Senate Committee on Agriculture, Nutrition and Forestry. The testimony from our panelists and from the audience will become a part of the Committee's official hearing record. Your comments, ideas and recommendations will be a great help to my colleagues and me as we work to write new legislation and improve programs affecting agriculture and rural communities.

Farm families and rural communities in Iowa and across our nation need new directions in federal policies. They have not shared in our nation's prosperity. Although Freedom to Farm had its positive features, it had serious shortcomings that are now quite obvious. However, we will not just go back to the previous policies. We have to learn from experience and make the necessary improvements. We must start by restoring a built-in, dependable system of farm income protection that does not require annual emergency legislation.

We must also remember that farmers are the foremost stewards of our nation's natural resources for future generations. We should strengthen our present conservation programs and adopt new ones to support both farm income and conservation. I have authored legislation to create a new, wholly voluntary program of incentive payments for conservation practices on land in agricultural production. That approach – improving both farm income and conservation – should be at the heart of the next farm bill.

To meet the challenges, the next farm bill must address the broad range of farm and rural issues. We must do more to promote new income and marketing opportunities – whether that is through value-added processing cooperatives, creating new products through biotechnology, developing niche and direct marketing or increasing exports. I see tremendous potential for farm income, jobs and economic growth through clean, renewable energy from farms: ethanol, biodiesel, biomass, wind power and even, on down the line, hydrogen for fuel cells. We must also ensure that agricultural markets are fair, open and competitive.

We cannot have healthy rural communities unless both farms and small towns are doing well. We should do more in the next farm bill to revitalize economies and improve quality of life in rural communities. That includes support for education, health care, telecommunications, water supplies and transportation, as well as access to investment capital for rural businesses.

Again, I thank all of you for taking part in these important hearings.

Testimony for U.S. Senate Field Hearings¹
Michael Duffy²

Good morning. I appreciate the opportunity to be here today and to have the opportunity to testify before this field hearing. My testimony will be divided into two broad categories. First, I will testify as to the current situation of agriculture here in Iowa. Second, I will provide my comments about what this committee should consider as it crafts the new farm bill.

Current Situation in Iowa Agriculture

A. Income

The highest net farm income in Iowa occurred in 1996, \$3.93B. This was followed very closely by the 1997 net farm income of \$3.67B. Since then, net farm income has decreased. In 1999, Iowa net farm income was \$1.45B.

Farm income in Iowa has become dependent on the influx of government payments to remain positive. For many producers the government payments represent the portion of their net farm income that is positive.

Government payments have averaged 55 percent of the net farm income in Iowa from 1990 through 1999. Over this same time period the yearly payments have averaged \$902M. In 1999, the government payments to Iowa farmers were \$1.8B and the net farm income, which included those payments, was \$1.45B. In other words, in 1999 net farm income in Iowa would have been negative if it were not for the government payments.

B. Agronomic

Over the years, Iowa has experienced a narrowing of its crop and income base. Today in Iowa 92 percent of the cropland is either corn or soybeans. Almost two-thirds of the entire area of the state, including rivers, lakes, and cities, is devoted to just these two crops.

As the crop base has narrowed, so have the sources of income for the state. In 2000, 28 percent of the cash sales were from corn, 21 percent from soybeans, 23 percent from hogs, and 17 percent from cattle. This means that 89 percent of the cash sales in the state of Iowa were associated with just four commodities.

The lack of diversity creates many problems. Past problems shift and increase as we cover the land with just two crops that use the same basic production technique: row

¹ Testimony presented March 24, 2001 to U.S. Senate Field Hearings, Wallace Research Center, Lewis, IA.

² Associate Director of Leopold Center for Sustainable Agriculture; Professor-in-Charge, Iowa State Beginning Farmer Center, Extension Economist, Iowa State University, Ames, IA.

cropping. We have seen insect pests that were once controlled with a single-year rotation adapt to the corn/soybean rotation. Certain weeds have either become major pests or adapted to the continuous row cropping. In addition to the pest problems, lack of diversity also can cause environmental problems. Chemical fertilizers are necessary to maintain yields and these can become sources of surface and groundwater pollution. Soil erosion is still a major problem for the state. Not only does it decrease the inherent productivity, it also serves as a means of transporting chemicals into the surface water.

We also have witnessed a dramatic change in crop production techniques over the past few decades. These changes have created increased yields and output but they have not led to increased income for the farmers. Figure 1 shows the net farm income as a percent of the gross farm income. Notice that the line is trending downward. In the 1950s, net farm income averaged 34 percent of the gross, while over the past decade net farm income has averaged only 20 percent of the gross. If the government payments are subtracted the difference is even more stark. This difference represents the money in production that is leaving the farm. New technologies to improve yields come with a cost, so the end result is that farmers handle more money but they do not make any more at the end of the year.

It is often asserted that as farms grow larger, efficiency improves. There are initial economies of size but these dissipate more quickly than most people realize. Figure 2 is based on data from the Iowa Farm Business Association. This figure shows the low point in the average cost curve for corn occurs some where in the 300- to 600-row crop acre range. This same presentation occurs, with slight variations, every year. Iowa corn and soybeans exhibit what is referred to as an "L"-shaped cost curve. Given this situation, the natural question is why are farms getting bigger. Figure 1 provides the answer by showing that our farms are getting bigger not to achieve efficiency, but to try and earn an income.

C. Demographics

The average age of farmers in Iowa reached 52.4 years old according to the 1997 Census of Agriculture. This represents a steady increase in the average age. Just a decade earlier in 1987, the average age of Iowa farmers was over three full years younger at 49.3 years of age.

Fueling the increasing average age has been a shift in the relative percentage of farmers in different age categories. According to the 1997 Census, Iowa had more farmers over the age of 65 (22 percent) than under the age of 35 (10 percent). This is a fairly recent phenomenon. Figure 3 shows the percentage of farmers by ages over the past few decades. Notice that it was not until the 1992 Census that the number of those under 35 was less than those over 65.

Another situation that has occurred which is drastically changing the way farmers do business is the change in residency. It was sometime in the late 1950s when Iowa changed from having more rural residents to having more urban dwellers. In the late

1980s another change occurred that has had and will continue to have an even more dramatic effect. As shown in Figure 4, we now have more people living in the country but not on farms than we do living on farms. This change conjures up all kinds of images of the problems that it could create for both sets of residents. Conflicts are bound to arise given the differing natures of why people are choosing to live where they do. Such conflicts present unique opportunities, but people have to be flexible.

D. Changing Structure of Agriculture

Another major area of change in Iowa is the changing structure of agriculture. This structural shift is occurring not just in production agriculture but in processing, manufacturing, and retail as well.

Based on the 1997 Census, fully half (50 percent) of Iowa's farms had sales of less than \$50,000. Indeed, there were 10 percent of Iowa's farms that had sales of less than \$1,000. Thirty-seven percent of Iowa farms had sales between \$50,000 and \$250,000. And, the remaining 13 percent had sales of over \$250,000. In a recent USDA study, "A Time to Act," the Small Farms Commission defined a small farm as any farm with sales less than \$250,000. This means that 87 percent of Iowa's farms are small farms.

Farm number estimates from the National Agricultural Statistics Service are presented in a slightly different manner. They still show the same type of trends revealed in the Census. In 1987, based on the NASS numbers, 53 percent of Iowa's farms had sales between \$10,000 and \$100,000. By 1999 that number had dropped to 40 percent. This truly is the "disappearing middle" to which many people refer.

Iowa finds itself today with a very small number of large operations and a large number of small operations. The larger operations, for the most part, have formed alliances with others in the food chain. They are seeking to become a part of a system where the food is controlled from the "dirt to the dinner plate." The smaller operations are either hobby, retirement-type farms or they are farms that are trying to market directly to the consumer. Farmers' markets, roadside stands, and community supported agriculture (CSA) are just some of the approaches used by this group of farmers. The middle-sized farms, the ones that have formed the backbone of Iowa agriculture for years are being squeezed out. They are told to get big or to get out, not too different than advice that was given to farmers a few decades ago. The problem is that today these folks really have nowhere to go. Iowa and the United States has to ask themselves, "Is this a group of farmers worth saving?" If not, then let's get out of the way and speed up the demise of the family-sized farming operation.

Farms are not the only ones being pressured by this increase in concentration. The processors, meat lockers, packers, and retailers are all being forced out of business or into some other line of enterprise.

E. Environment

The environment continues to be assaulted by current farming methods. Odor problems persist as animal confinement units continue to expand. In Iowa the number of farms with hogs has dropped from over 64,000 in 1980 to under 17,000 today. At the same time, the number of hogs has remained relatively constant. Obviously, this means that the number of hogs per farm has increased substantially. The number of pigs per farm has increased from slightly over 250 to almost 800. This concentration has led to a number of environmental problems.

A recent study has also shown that Iowa has some of the most polluted lakes and streams in the world. Agricultural chemical and sediment runoff is one of the primary causes of this pollution.

F. Conclusion

Iowa agriculture is in a precarious position. Government support has reached unprecedented levels and yet problems persist. Farmers are going bankrupt, the environmental problems continue, and rural communities are withering away.

This seems like a bleak picture and one that would be espoused by those who feel we should let production of raw commodities go to the less-developed countries. These countries have lower costs due to lower land values and wages when the modern array of chemicals and machinery are used.

Iowa also is witnessing a continuation of the bifurcation of production agriculture that may well result in the disappearance of the middle-sized farmers with which many of us identify. Time will tell their fate, but there is a strong belief that time is running out.

I would now like to turn my attention to some of the measures and issues that should be addressed in the next farm bill. These issues will not be listed in any particular order but they are ones that I feel will be important and should be part of any new legislation.

Issues for the Next Farm Bill

A. Energy

The increased costs of production that farmers have experienced over the past year are not likely to abate. The estimated costs of crop production in Iowa show that the energy price increases are likely to cause a 6 percent increase in the costs. The cost increases are due to the increase in diesel prices and the increase in nitrogen fertilizer costs. Cost estimates for average yield, continuous corn in Iowa have gone from \$2.89 per bushel to \$3.02 per bushel. The cost increases for corn following soybeans are not quite as large due to the lower commercial nitrogen fertilizer needs.

Diesel fuel price increases from \$1.00 to \$1.40 would increase the cost of continuous corn by \$.03 per bushel, corn after soybeans \$.02 per bushel, and soybeans by approximately \$.06 per bushel. Similarly, nitrogen price increases from \$340 per ton to \$420 per ton would raise corn costs approximately \$.03 per bushel. These cost increases when considered separately do not seem that high, however, the cumulative impact has caused considerable hardship for farmers. Farmers are not able to pass along their higher costs and so they must absorb them. And, perhaps most distressing for farmers is the fact that energy as a percent of the total costs of production had been decreasing since 1981. Now, at a time with low commodity prices, farmers are faced with rising costs over which they have no control.

Energy can be addressed in several ways by the farm bill. Energy offers alternative uses for existing crops. Ethanol and biodiesel fuel are two such examples. Care has to be taken with help for ethanol so that it does not just benefit the large companies that produce the majority of the existing ethanol supplies.

Energy support policies can be expanded to include the alternative crops. Biomass production via such crops as switchgrass and reed canarygrass or through agroforestry products offers opportunities to farmers.

Another area the farm bill should address is support for on-farm energy research. There are many potential sources of energy on the farm and these should be cultivated and developed. On-farm energy production was important during the 1970s but the situation has changed since then. Those experiences were almost thirty years ago and it is time that they were updated to reflect modern conditions.

B. Definition of a Farm

One of the serious issues that is going to have to be addressed is the definition of what constitutes a farm. Currently the definition is a place that sold or would have sold at least \$1000 worth of agricultural products in a year. The \$1000 sum has been the cutoff since 1974. It is not realistic and does not reflect the current state of affairs in U.S. agriculture. This broad definition is masking some of the real problems that exist and is preventing help from going to those who are really the intended recipients. In 1997, 14 percent of all U.S. farms had sales of less than \$1000. We are going to have to be honest with ourselves and ask, is this really a farm?

There will never be a perfect definition of a farm. However, simply raising the minimum sales level would go a long way to addressing some of the problems. Some critics of small farm programs cite the current statistics as reasons why we should not help the small farms; after all they are just hobby farms and don't really count. At least by raising the minimum cutoff level, there could be a more rationale discussion of the dimension of the U.S. farm population.

C. Payment Policies

We have many different options available to us and you will be hearing several of them. I would simply like to point out that the payment mechanisms of the past have paid for commodities. This was done under the assumption that if you held prices up, then you helped farmers, but the reality of the situation is that we have programs that favor commodities more than people.

The Conservation Security Act is a step in the right direction. It provides payments for conservation not simply commodities.

Another proposal that I have attached is one I developed with Dr. Paul Lasley at Iowa State University. In this proposal, we suggest paying a minimum wage to farmers for up to but no more than full-time employment. The payment emphasis would shift from commodities to labor, from grains to people. We believe that this policy is more in keeping with the original intentions of the farm payments.

There are many other approaches, but we must begin to address the problems of having payments attached to production of certain crops. This simply leads to the continued overproduction of those crops and results in the unhealthy situation like we have today.

D. Level of Payments

Regardless of which direction or mechanism is followed in the new farm bill, attention must be paid to the level of the payments and the impact on farm income. As I have noted, Iowa farmers and other farmers throughout the country have factored those payments into rents, land values, and other aspects of production. If they are summarily cut off, calamity would result in the countryside.

If the payments must be cut or if the payment mechanism is going to be altered, it must be clearly stated and the impact clearly understood.

E. Small Farm and Beginning Farmer Research

Research and education must continue in earnest in these areas. Many of the existing programs simply assume that more money or access to capital is all that is needed. These programs have their place but it is critical that young and modest-sized farmers be given information on the options and alternatives that apply in their situation.

For many years the explicit government policy was to conduct research that would move people off the land and into other endeavors. As we start the 21st Century, we can see that farmers play a more vital role in the health of rural communities than was previously recognized.

We must conduct research about what options will be economically, ecologically and socially sound. If we just pay attention to one, then the others suffer and so too does the whole system. We have to start looking at options and alternatives that will work in a variety of situations not just for large farms.

F. Conclusion

Again, I appreciate the opportunity to speak with you today. I have tried to lay out some of the issues I see impacting Iowa farmers and some of the points that should be addressed in the new farm bill. I have purposely avoided discussion of specific proposals. Others more knowledgeable than I will do that.

My concern with the policy debate is that there should be some time for reflection. I have worked with many of the groups in Iowa and around the country and I am concerned by some of the attitudes I see. There are those who are only interested in formulating and supporting a policy that will benefit them. If there is the least little thing they don't like, they are opposed to the whole idea. This leads to policy that, in my opinion, seeks the lowest common denominator. Nothing will get changed. And we need to make changes. The current system is broken. Not just the current farm bill, but the whole idea that commodities are more important than people. We have to start looking at food security, food safety, rural communities, and the whole food system, not just pieces of it. If we merely tinker with edges, we aren't going to change much. Then we will continue with the policies that generate high costs and not much return.

Thank you.

Figure 1: Iowa Net Farm Income as a Percent of Gross Farm Income

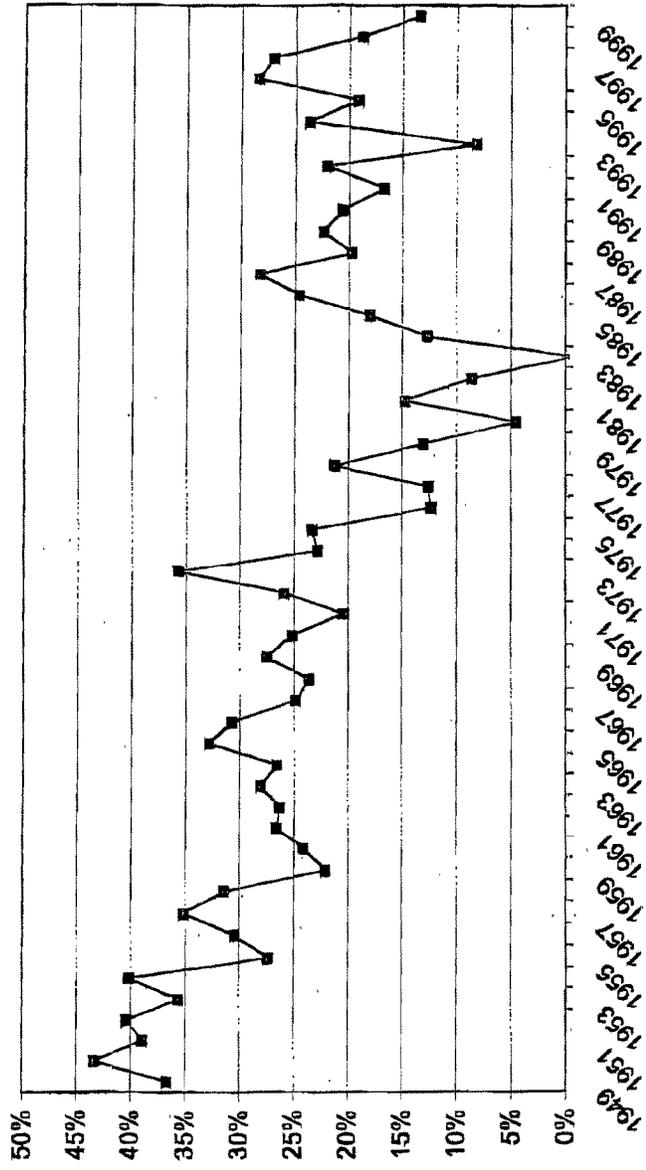
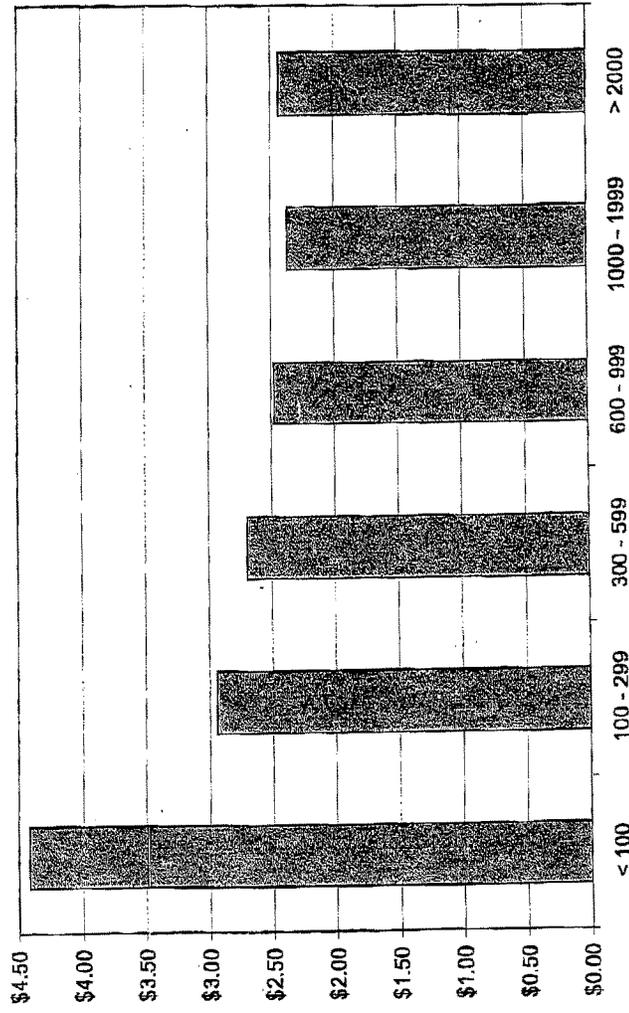


Figure 2: Total Economic Cost of Producing Corn,
1998



Source: Iowa Farm Business Association

Figure 3: Percent of Iowa Farmers over the Age of 65 and Under the Age of 35

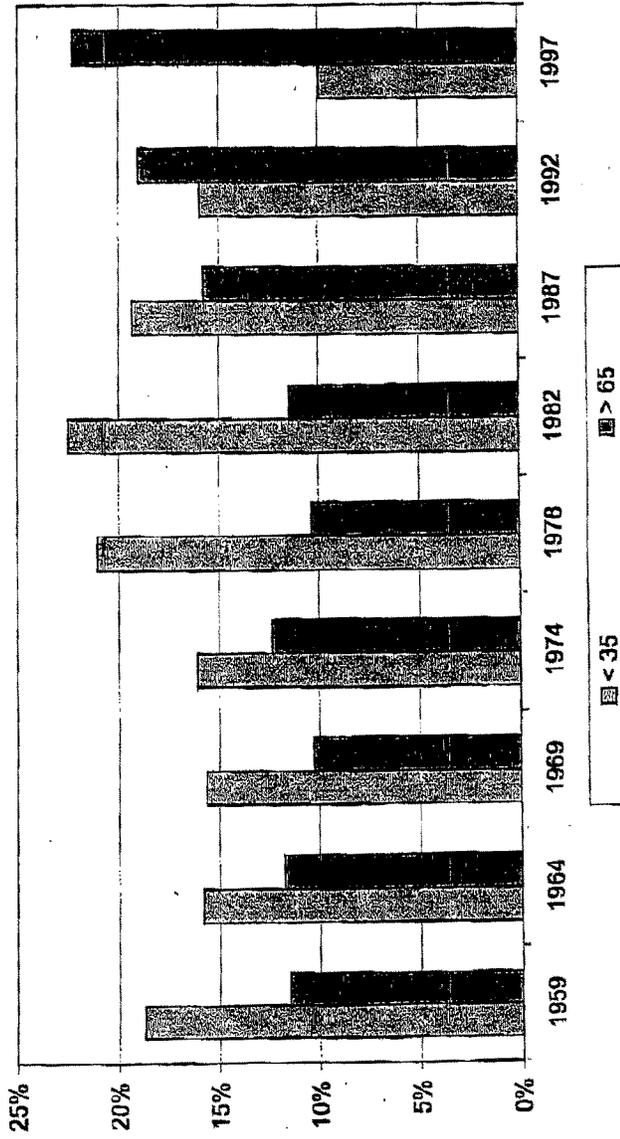
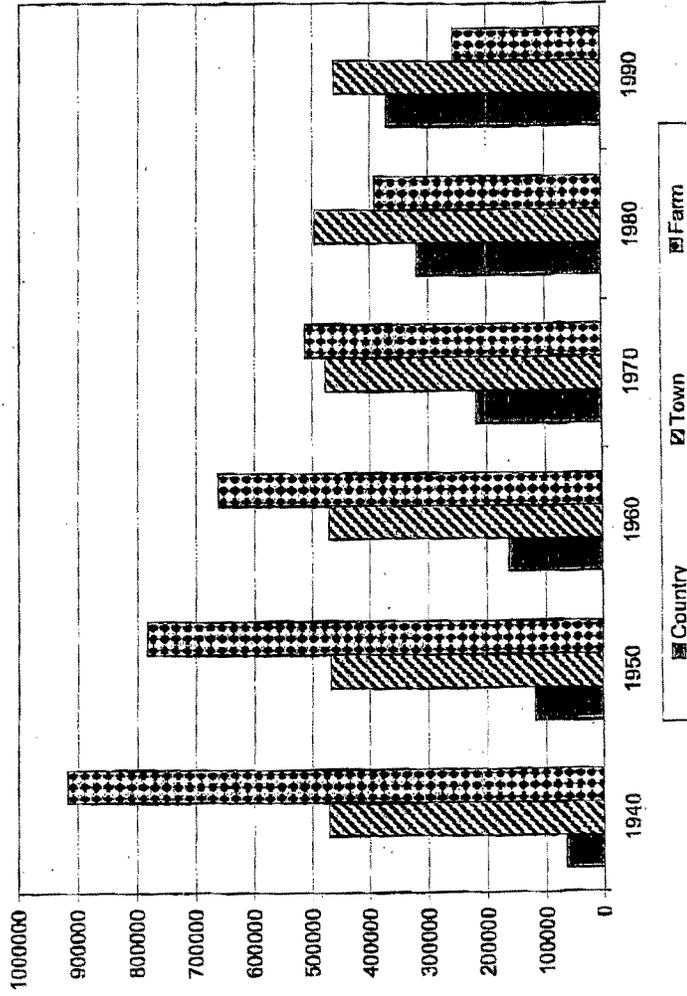


Figure 4: Iowa's Rural Population



Guaranteed Farmer Minimum Wage¹

I. Introduction

A. Current farm bill is seriously flawed

- farmers continue to leave involuntarily
- rural communities continue to decline
- environmental problems from agriculture persist
- farmers have become dependent on payments
- land values are artificially maintained
- federal government has uncertain budgetary exposure

B. Current policy debate suffers from making meaningful change because the interests are not always consistent in their desired outcomes. This results in farm policy that maintains the status quo or is at a lowest common denominator.

II. Guaranteed Farmer Minimum Wage² (FMW)

A. Explanation

FMW would provide farmers with a return to labor based on an average minimum wage times the average hours they work. Average hours worked would be based on the farming enterprises and limited to full-time on-farm employment.

B. Why?

FMW would support people not commodities
 FMW would allow maximum flexibility with respect to
 what crops are grown
 FMW would involve no involuntary land set-asides
 FMW would not distort market signals

¹ By Michael Duffy and Paul Lasey, Iowa State University, Ames, Iowa.

² A numerical example of FMW is provided at the end of the text.

C. What?

FMW would be based on the average wage rate that prevailed in the country or state based on classification for Production, Construction, Operating, Maintenance, and Material Handling Occupations. For example, in Iowa the average rate for such occupations was \$11.95 per hour.

FMW would be based on the current estimate for the average time required to perform the operations in the existing farming situation. Additional time would be allowed for short travel distances, maintenance, and overall operation. For example, an acre of corn takes x hours, an acre of soybeans takes y hours, or a litter of pigs takes z hours. The time required would be established at the state level for typical enterprises. The eligible enterprises would be determined by those reported on the Schedule F or reported to the local Farm Service Agency office at the time of enactment.

FMW would allow additional hours to be earned for conservation and community betterment activities. Betterment activities would be ones that increase the appearance or overall functioning of the community, including farm appearance, volunteer work, and community leadership. Conservation activities would include such things as tree planting, wetland restoration, establishment of hiking trails for the general public, and other activities designated by the local Conservation Board.

FMW would only pay for the hours up to full-time employment. Recognizing that farming takes more than an 8 to 5 job, full-time employment under this proposal would be an 8-hour day, 7 days a week, 50 weeks per year or 2800 hours per year. The seven-day work week is to reflect time for livestock producers and others with chores. This provision would be subject to debate as to what constitutes a full time work week for farmers.

D. Benefits

Fixed budget commitment. Federal government would know within reason the total dollar outlay for this program. Farmers and their lenders would have at least a portion of the income for the year known in advance. State government could estimate this portion of the farmer income with greater precision.

This would allow farmers the maximum freedom to plant or not plant whatever they wanted.

FMW would not be market distorting because there would be no set-asides or unknown land retirement schemes. Supply and demand conditions would dictate the prices for commodities. This should place FMW in the green box with respect to the WTO rules.

Farmer safety net would be maintained to the extent of employment.

The impact on land prices and rents should be less distorted than under current conditions. The support would go to labor rather than to the land. This would lessen the impact because FMW would only impact land up to full-time employment for the farmers in the neighborhood, after that demand would be a function of market conditions.

This would provide direct payments for livestock producers.

E. General Provisions

Farmers must maintain the current regulated levels of soil and water protection measures to maintain eligibility.

Beginning farmers would not be adversely impacted by FMW. They could enter farming as local conditions allow and be paid up to the amount of their agricultural activities as specified under Section II, C. Beginning farmers would be able to expand their operations and payments over the life of the bill. Beginning

FMW would be size neutral with respect to only providing payments based on the amount of work. Small farmers would not be adversely impacted relative to those with larger commodity basis. Limited resource farmers would benefit due to the guaranteed minimum wage.

Crop insurance would be maintained to protect against adverse price and weather conditions.

No special programs for weather-related problems would be allowed, except for those provided by other agencies or programs outside the USDA.

Trade, research, CRP and other secondary programs would be maintained. The extent and nature of these programs would be covered in separate sections of the bill.

Provisions of FMW would be set for the length of the farm bill.

III. Issues for Discussion

A. Additional Family Income

Decisions will have to be made with respect to what extent and at what level spousal income will be included under FMW. As conceived this was only for the operator of the farm and the one filing the Schedule F tax return. But, this would eliminate payment for spousal help around the farm.

- B. Similar to (A) but sometimes at a more significant level of involvement would be the contribution of a child. To some degree this could be handled by an age restriction but this would not be totally satisfactory in some cases.

- C. Public acceptance of FMW could be problematic. Having the price supports so transparent could produce a backlash of criticism even though FMW would be more beneficial to the taxpayer and more in accordance with the desires of the public with respect to the final outcome support for family farms.
- D. Specialty crops may present some problems if there are not established times for them. In such cases, time should be estimated by the Extension Service with input from commodity groups, state department of agriculture, and other knowledgeable parties.
- E. Alternative production techniques to the standard production system prevailing in an area will be allowed if the farmer can verify use of such techniques to the local Farm Service Agency. Examples of such techniques would include hoop house or outdoor swine production compared to the standard confinement units. Alternative techniques that result in higher market prices or are done to meet contract specifications will not be granted special consideration from the standard production time estimates.

IV. Iowa Numerical Example

- A. The following example is for Iowa but would apply to other Midwestern, corn belt states with similar wages and production technologies.

Assume a corn/soybean rotation with 140 and 45 bushel yields, allowing 3.2 hours per acre for the corn and 2.5 hours per acre for the soybeans. Also, using \$12 per hour for a maximum of 2800 hours. And, with a \$.26 AMTA payment for the corn acres and 140 bushels.

<u>Acres</u>	<u>AMTA Payment</u>	<u>Hours Worked</u>	<u>FMW</u>
1000	\$15,470	2850	\$33,600
500	7,735	1425	17,100
200	3,094	570	6,840

Using the current loan rates of \$1.80 for corn and \$5.25 for soybeans and assuming that the farmer received the listed price:

<u>Prices</u>	<u>LDP Gain</u>	<u>Total Current Payment</u>	<u>Difference Using FMW</u>
<u>\$1.50/\$4.50</u>			
1000 acres	\$37,875	\$53,345	(\$19,745)
500	18,938	26,673	(9,573)
200	7,575	10,669	(3,829)

<u>Prices</u>	<u>LDP Gain</u>	<u>Total Current Payment</u>	<u>Difference Using FMW</u>
<u>\$1.67/\$4.88</u>			
1000 acres	\$17,425	\$32,895	\$ 705
500	8,713	16,448	653
200	3,485	6,579	261

B. Discussion

The second set of prices represents a seven percent decrease in prices from the loan rates. Returns are approximately equal at this level.

With FMW farmers many may not receive the downside price protection available under the current program. However, there are crop insurance options that would be available to help mitigate this negative aspect. Farmers would also be guaranteed the minimum wage and thus be able to gain at loan rate prices or above.

C. Budget Exposure

Assuming the loan rate is the price received the 1000-acre farm would have sales of \$244,125, the 500-acre farm's sales would be \$122,063 and the 200-acre farm would have sales of \$48,825. Based on the 1997 Census of Agriculture there are 90,792 farms in the state of Iowa. The Census also reported that 13 percent of the farms had sales over \$250,000; 37 percent had sales between \$50,000 and \$250,000 and that 50 percent of the farms had sales less than \$50,000. Using these figures the cost of GFMW for Iowa would be:

Large farms	90,792*.13=11,803*	\$33,600 =	\$396,579,456
Medium	*.37=33,593*	\$17,100 =	574,440,984
Small	*.5=45,396*	\$ 6,840 =	310,508,640
Total			\$1,281,529,080

The \$1.3B is approximately a third higher than the average \$902M in government payments to Iowa during the decade of the 1990s. However, the payment is only 16 percent larger than the \$1.1B average under the 1995 farm bill. It is also less than the \$1.8B paid to Iowa farmers in 1999.

Changing the minimum wage rate would impact the budget costs associated with this proposal. Decreasing the minimum wage to \$10 per hour would drop the government costs to close to the average amount spent under the current farm bill.

V. Conclusions

The current farm bill is seriously flawed. There have been record levels of payments and yet we continue to have many of the same problems facing agriculture. The current system does not offer much hope that anything of substance will come from the debate over the next farm bill.

By proposing FMW we are trying to enter the debate with a fresh concept. The idea of FMW is to reward labor and not commodities. It is designed so that it does not favor large (or small) farms but rather rewards based on the labor involved in the farming operation.

Many would argue that it would be better not to have the payments so transparent. However, the American public has shown a great deal of respect for farmers. By implementing a plan like FMW that trust could be maintained. Farmers are the guardians of our natural resources and they provide our food. It is in everyone's best interest to insure that these resources do not become too concentrated in a few hands. Food is the great equalizer, if you don't have it you will not go far. We need to insure not only our food but the food for generations to come.

March 23, 2001

Senate Agriculture Committee

Wallace Foundation

Lewis, Iowa

March 23, 2001

Good Morning,

Welcome to the Wallace Foundation for Rural Research and Development. I am David Williams, a family farmer from rural Page County.

Senator Harkin, I am pleased you have come to Southwest Iowa and are giving the citizens of the area the opportunity to share inputs of rural America.

I would like to address The (2002) Farm Bill and the current Freedom To Farm Bill. The Freedom to Farm Bill was a failure from the beginning because it was written by and for corporate Agriculture. Simply put, allowing agriculture producers to plant unlimited acres of corn and soybeans without an acreage or bushel limit was a disaster that previous history has revealed. The benefits of The Freedom To Farm Bill to corporate agriculture include increased sales of seed - fertilizer - chemicals and the lower dollar \$ grain prices to the multinational grain traders and grain and livestock producers. Corporate agriculture has welcomed and profited enormously by large supplies of cheap grain.

Feed grain (corn - soybeans - wheat) in the Midwest sold at a price below the cost of production has allowed the integrators of industrialized agriculture to expand at a rapid rate. The expansion of large corporate livestock operations has been especially evident in the huge expansion of mega swine farms.

There is no way family farmers can survive producing grain and livestock below the cost of production. It is obvious with 50% of the farm income coming from governments payments that Freedom To Farm has been a dismal failure.

Here are some ideas I would submit for the 2002 Farm Bill:

- Paying farmers who practice sustainable conservation practices would be a first step to protecting our soil and water quality. Monetary incentives would go to farmers who installed specific conservation practices. Those farmers not adopting these government conservation practices would not receive any government payments. Paying farmers to manage the resource base will actually do more to improve their income than the current system.
- We need to target farm programs that benefit medium sized farms. These are the farms most at risk financially. Failure to do this will be the demise of family farms. The current farm program follows the rule that the bigger

you get the more money\$ you will receive. Thus we subsidize mega farms bringing high cash rents and accelerated land prices.

- We should have a safety net that puts a floor under grain prices. A well planned on the farm grain reserve would also benefit the farmer and be a cushion for a crop failure.

- We need to close payment limitation loopholes. We need to focus the bulk of the support on each farmer's first \$250,000 of production.

I obtained from the Page County NRCS office the total dollars \$ amount requested for conservation construction practices that are on file for cost share.

Conservation practices monies requested in our county for federal and state government amounts to \$ 4.7 M. Matching of \$ 4.7 M would be paid by land owners. Thus \$ 9.4 M is on a backlog for conservation improvements in Page County.

Other comments

- Encourage and provide loans to producers who come together in a cooperative to add value to a value added product.

- Pass the Agriculture Revitalization and Enterprise Act (ACRE)
-see attached

- Enforce mandatory price reporting

- Scrutinize and enforce anti-trust activities of the food system. This is critical to independent producers.

- Revisit the pork check off vote overturned by the current secretary of Agriculture.

In summary-

We are at a serious cross road in the industrialization of agriculture vs. the independent farmer. I think our farm organizations, commodity groups, our land grant universities, and our state and federal government should draw a line in the sand and decide whether they are going to support independent farmers or corporate agriculture. These groups cannot continue to straddle the fence if independent farms are to remain viable.

To quote Aldo Leopold:

“We abuse land because we regard it as a commodity belonging to us. When we see land as a community to which we belong we may begin to use it with love and respect.”

To me this speaks to the sustainability of the land and family farms. I appreciate the opportunity to share my ideas and thoughts with Senator Harkin and the Senate Agriculture Committee.

• I have submitted other papers for the Senate Agriculture Committee•

PAGE COUNTY NRCS

A three to four year backlog of requests for conservation construction practices in PAGE COUNTY.

STATE MONEY

367 unfunded requests for state conservation projects amounting to \$3,668,000.

FEDERAL MONEY

Mill Creek Watershed
50 land owners for \$600,000

EQUIP requests
35 individuals for \$420,000

This would:

- build 850 miles of terraces protecting 18,000 acres
- 19 ponds
- 625 acres of pasture management
- 9 stream bank projects



**TESTIMONY OF JOHN ASKEW
PRESIDENT, IOWA SOYBEAN ASSOCIATION**

**UNITED STATES SENATE AGRICULTURE,
NUTRITION, AND FORESTRY COMMITTEE
FIELD HEARING**

**SATURDAY
MARCH 24, 2001**

Good afternoon, my name is John Askew. I am a soybean producer from Fremont County, Iowa, and currently serve as President of the Iowa Soybean Association. On behalf of the members of the Iowa Soybean Association, the largest state row-crop association in the United States, I wish to thank the Senate Agriculture, Nutrition, and Forestry Committee and Senator Harkin for the opportunity to testify today on the important topic of the future of agriculture in the United States.

As we rapidly approach the 2002 Farm Bill, it is important that Iowa soybean producers provide input on many of the critical issues facing agriculture. Iowa is a leader in soybean and agricultural production. The future direction of agricultural policy is critical for a state such as ours. As the future of agriculture goes in Iowa, so too does the future of our state.

Many important decisions must soon be made regarding U.S. production agriculture. These

decisions will cover a broad spectrum of issues from current domestic farm programs to expanded trade opportunities and development. Iowa soybean producers understand that these decisions will have significant budget impacts. We hope these important budget decisions will carefully balance the social and economic needs of the farmer and rural communities and the need of the public for a wholesome, safe and plentiful food supply.

From the perspective of Iowa soybean producers, long-term agricultural policy and budget considerations surrounding the upcoming 2002 Farm Bill should focus on the following key areas.

First, agricultural policy should focus on enhancing the viability and long-term global competitiveness of Iowa and U.S. producers. To this end, Congress and the Administration should meet the unfulfilled promises of the 1996 FAIR Act. Such promises included the expansion of trade opportunities and markets, policies to increase

domestic demand and utilization of agricultural products, increased funding for agricultural research, improvements in river infrastructure, and meaningful tax and regulatory reform. If these promises had been kept, the large government outlays that have been required in recent years to support farm income may not have been needed. Congress must complete the unfinished agenda and provide support to agriculture in the interim.

We should establish a national energy policy addressing increased opportunities for biofuel use. We must address expanding our infrastructure capabilities. The development of local food systems and value-added processing and marketing systems is critical for the continued viability of rural America. Additionally, the establishment of a national energy policy which addresses increased opportunities for biofuel use should be a top priority.

Additionally, any discussion on the upcoming Farm Bill should address and work toward improving risk management tools and subsidies for crop insurance. As an organization, we also believe that efforts underway to establish standards for financial and production systems are critically important. We are convinced that helping Iowa and U.S. farmers gain access to and understand the necessary information regarding their farming operations is key to leveling the playing field.

Secondly, we believe that soybeans should be treated equitably under the next Farm Bill. Agricultural policy decisions must provide improved safety nets for producers. Policy should include the continuation of planting flexibility, maintenance of current marketing loan rates and the loan deficiency payment structure, and the establishment of a counter-cyclical program. Specifically, current loan rate ceilings should be

set as floors, including the soybean loan rate of \$5.26 per bushel.

A third, and very important, focus of upcoming Farm Bill discussions should involve land conservation practices and the environmental performance of agriculture. As the frontline stewards of the land, producers are uniquely positioned to work toward increased and improved environmental performance. We support Senator Harkin's leadership in proposing the Conservation Security Act. The Iowa Soybean Association is developing a voluntary, systems-based approach to improve environmental performance called Certified Environmental Management Systems for Agriculture, or CEMSA. We believe CEMSA could be a complimentary ingredient of future conservation programs.

In conclusion, Iowa soybean producers very much appreciate the opportunity to provide these comments. We wish this Committee well as it makes

the important decisions it must on the future of American agriculture. We are committed to working together in the 2002 Farm Bill debate to develop the best possible farm policy for all Americans.

Again, I thank the Committee for its time and consideration today. Thank you.

UNITED STATES SENATE
Committee on Agriculture, Nutrition, and Forestry

Presentation by:
Shirley Frederiksen,
Coordinator, Golden Hills Resource Conservation & Development

Testimony on projects and opportunities in rural development in western Iowa.
Saturday March 24, 2001 at 9:30 am at the Wallace Foundation Learning Center, Lewis,
Iowa

Thank you Senator Harkin for allowing me to speak at the Senate Agriculture Committee Hearing.
Resource Conservation & Development is a program administered by USDA/Natural Resource Conservation Service providing technical assistance to private non-profit RC&D organizations.

Golden Hills Resource Conservation and Development is one of those non-profit organizations encompassing eight counties in Southwest Iowa. The Golden Hills RC&D Board goals are conserving the Loess Hills, strengthening the agriculture economy, developing small rural businesses, increasing tourism and assisting under served clients. The board's vision is to strengthen and diversify the economy of rural communities in southwest Iowa.

I would like to focus today on some current projects of the Golden Hills RC&D Board.

Loess Hills & Tourism

The Loess National Scenic Byway is a system of more than 220 miles of county and state roads through the Loess Hills consisting of a main route and 15 excursion loops. This tourism project is an excellent example of rural development for the 18 small communities along the Byway. Travelers stay at bed and breakfasts, stop at the old-fashioned soda fountains, eat at the pie parlors and restaurants and visit local artisans. Scenic America, the nation's leading scenic byway organization, named the Loess Hills Scenic Byway one of the ten most outstanding scenic byways in the country. Each year more than 1 million people travel the Loess Hills Scenic Byway and visit its attractions.

Small Business Development

Prairie Restoration in the Loess Hills is a project providing cost-share to producers clearing invasive species from the native prairies. Over 99% of Iowa's prairies are gone. The Loess Hills contain the majority of undisturbed prairie remnants and comprise the last self-sustaining prairie system in Iowa. The Prairie Restoration project has spurred many entrepreneurs to diversify their existing traditional agricultural businesses. Some of the developing businesses include: tree shearers, native grass seed collection, prairie seeding for hire, prescribed burn business and other cedar utilization businesses.

Strengthening Agriculture

Developing alternative agriculture and local food systems is another developing project. One of the efforts underway is to revive the grape and wine industry in western Iowa. At one time, Iowa boasted more than 6000 acres of vineyards, 3000 of which were located in the Loess Hills of western Iowa. The distinctive flavor of the fruit grown in these soils made the Loess Hills the perfect location for vineyards and wineries. For grape growers, income potential is approximately \$1,800 net per acre for a fully mature vineyard. Adding value to the grape by producing wine increases the profit potential to \$7,000 to \$10,000 per acre using conservative figures.

Golden Hills is very proud of the work accomplished over the past 20 years, and with access to resources, project opportunities yet to be explored include:

1.) Local Food Systems - Integrating locally produced food into the restaurant and food service industry.

2.) Alternative Energy - There are a couple of ways to increase profits. One is to increase the price of the product and two, is to decrease purchased inputs. Utilizing alternative energy reduces input costs thereby increasing net profits. Golden Hills RC&D would like to investigate wind and solar energy and the use of biomass as alternative energy sources for rural America.

In the next 20 years we look forward to leading in the development of these project areas.

Thank you for support of the RC&D program and for considering a strong rural development component in the upcoming Farm Bill.

Testimony of Sam Carney

**Pork Producer
And
Vice President of Producer Services**

Iowa Pork Producers Association

**Before the
Iowa Field Hearings, Senate Ag Committee**

March 24, 2001

Senators Harkin, Lugar and members of the Ag Committee:

I am pleased to testify today on farm commodity programs and other policies that will ultimately become part of the next farm bill. I'm Sam Carney, and I produce hogs, cattle, corn and soybeans with my brother and my son. Our farm supports these three families near Adair, Iowa. I am also the Vice-President of Producer Services for the Iowa Pork Producers Association (IPPA). My comments today will focus primarily on livestock components of the next farm bill.

While much of the discussion and debate on the next farm bill will focus on grain production, please keep in mind a substantial portion of Iowa's corn and soybean crops are fed to livestock and poultry. The pork industry represents a major value-added activity in rural America and major contributor to the overall U.S. economy.

While the issue at hand today is the future of commodity programs, I believe the next farm bill must also focus on conservation, trade, market competitiveness, environmental, food safety and bio-security issues. Agriculture is moving from an unregulated to a regulated industry in most aspects of our farming operation. Nonetheless, livestock farmers, except dairy farms, have operated in a marketplace without government subsidies and controls.

However, we have a huge stake in the next farm bill discussion. Approximately 60-65 percent of the cost of raising hogs is from feed costs. Corn and soybeans are the major components of our feed rations. Therefore, any changes in commodity programs that effect the price of feed have a profound financial impact on my livestock operation. Conversely, as major users of the grain and oilseed commodities, problems and issues for livestock producers ultimately affect grain and oilseed producer prices.

Conservation and Environment

Livestock producers in several states face, or will soon face, costly environmental regulations as a result of state or federal laws designed to protect water quality. This includes federal regulations under the Clean Water Act for a Total Maximum Daily Load Program (TMDL's), and the proposed new Concentrated Animal Feeding Operations (CAFO's) permit requirements. Federal regulators also are exploring the possibility of expanding federal regulation of agriculture under the Clean Air Act.

Since 1997, Environmental Quality Incentives Program (EQIP) has accumulated a backlog of 196,000 unfunded applications for approximately \$1.4 billion in assistance, more than half of which is for

livestock producers. Farmers and ranchers are on the verge of a new regulatory era and it is impossible for us to pass on the costs of regulatory compliance. We are price takers, not price makers. While I believe all farmers are true environmentalists, a typical operation like mine cannot afford the investment it will take to comply with new regulations. I urge the Committee to provide the assistance necessary to implement sound conservation practices to protect our nation's air and water.

I urge the Committee to support at least \$10 billion over the life of the next farm bill in spending for USDA conservation programs to address livestock's environmental needs, specifically for water and air quality. These funds should be used to provide financial incentives, cost sharing, and technical assistance to livestock, dairy and poultry producers to develop and implement manure and nutrient management plans that are built on practices that protect water and air quality.

Any successful conservation assistance program must be available to every producer, regardless of the type of production, whether confinement or open feedlots. Of course, payment limitations could apply similar to row crop payments. I feel it is appropriate and fair that the livestock community be treated in the same manner as the row crop producers through the use of a similar payment limitation.

Trade Expansion

U.S. pork producers became net exporters in 1995 for the first time. In order to sustain the profitability of our producers, we must do a better job of product marketing and doing away with market distorting trade practices.

Pork producers believe funding for the Market Access Program (MAP) should be boosted. Also the trade promotion authority should be renewed and the U.S. position in the next trade negotiations for agriculture should include the total elimination of all tariffs, all export subsidies and all trade-distorting support for pork and pork products by other countries. In addition, we believe that the Global Food for Education and Child Nutrition Act should include pork, beef, poultry and dairy products as well as commodities.

USDA Role for Animal Diseases

If the current situation in the U.K. and Europe has taught us anything, it shows how important bio-security issues are to U.S. livestock farms. Although the United States has not had to face Foot-and-Mouth Disease (FMD) since 1929, Congress and USDA must be diligent to ensure that

**Iowa Pork Producers Association
Captive Supplies in the Livestock Industry**

As early as 1975, it has been unlawful in the State of Iowa for any processor of beef or pork to own, control or operate a feedlot in Iowa in which hogs or cattle are fed. Pork producer leaders in Iowa have expressed concerns for several years. As early as 1981, the association's elected producer leaders developed a policy position that expressed support for continued monitoring of the packer and retail industry.

Each year approximately 200 pork producers representing their local county pork producers organizations serve as delegates to the IPPA's annual meeting. In 1989 the delegates passed a resolution calling on the National Pork Producers Council (NPPC) to seek and secure legislation to prohibit packers nationwide from feeding and slaughtering porcine animals.

The association's board of directors developed a policy statement in 1994 calling on the Packers and Stockyards Administration to engage in vigorous oversight of the industry to make sure market access is available on an equitable basis to all pork producers, and should specifically study and report on the availability of market contracts which may be used in the industry.

The year of 1996 brought about the development of several policy statements that are included in the association's policy manual. Delegates to the IPPA's annual meeting passed a resolution which stated, "we support reporting the pork industry's percentage of captive supply by the Agricultural Marketing Service and the Packers and Stockyards Administration". Another resolution passed at that meeting states, "we believe Iowa's prohibition on 'packer feeding' should be vigorously enforced by the Iowa Attorney General so that pork processors are not allowed to operate feeding operations in Iowa and that Iowa's packer feeding law should be amended to prevent processors and those who own processors from circumventing the law by simply establishing new corporate entities which they control".

Delegates to the 1999 annual meeting passed the following statement, "We encourage the IPPA and NPPC to look into the preservation of competition in accordance with the Sherman Anti-Trust Act within all aspects of the industry". At the IPPA Board of Directors meeting in August 1999, a policy statement was approved calling on pork producers to sell at least 25% of their hogs on the open market and to report the prices to the USDA Market News Service.

At the 2000 annual meeting, the delegates directed the association to support federal legislation that bans packer ownership, excluding closed cooperatives, of hogs or cattle, directly or indirectly.

During the years 1999 and 2000 IPPA assisted with amending Iowa's corporate farming laws. Not an easy task by anyone's measure! The 1999 legislation was used to bring suit against Smithfield Foods by the state Attorney General. Without these changes, the state would not have had a legal basis or reason to be in court ("legal standing").

The 2000 legislation rewrote and strengthened the vertical integration prohibition against packer feeding of swine. This legislation closed a loophole which indirectly allowed packer/processors to own or finance pork production. The law prohibited the activity and required divestiture if packers had indirectly financed pork production. Both the 1999 and 2000 legislation were at the direction of and consistent with IPPA producer delegate policy.

IPPA has also assisted with passage of mandatory price reporting. In Iowa, mandatory price reporting laws were passed in 1999. The federal mandatory price reporting law and rules were passed by Congress and signed by the President during 1999-2000. These actions were also a result of IPPA delegate direction.

Statement of

**Aaron Heley Lehman
Iowa Farmers Union**

To The

**Senate Agriculture Committee
Hearing on the Future of the Farm
Bill and Related Topics**

**Lewis, Iowa
Saturday, March 24, 2001**

Senator Harkin, members of the Senate Agriculture Committee, I am Aaron Heley Lehman, Legislative Director of the Iowa Farmers Union. I also farm with my family as the fifth generation on our central Iowa farm. It is a pleasure speaking to you today on behalf of the family farmers of the Iowa Farmers Union.

Mr. Chairman, I commend you for bringing these hearings to rural Iowa. We hope to work with you in developing a comprehensive agriculture policy that creates opportunity in rural Iowa and rural America.

The Federal Agriculture Improvement and Reform Act, dubbed Freedom-To-Farm by its proponents, was adopted when commodity prices were high and expectations for agriculture were unrealistically high. In reality, the promise of a broad, market-based environment of opportunity for farmers was shattered by an ongoing commodity price collapse. The dream of farmers less entangled in government involvement has turned into a nightmare of government dependency. While the government subsidies have provided some relief to farmers struggling to survive, the payments have fueled the trend toward larger and larger farms and concentration in agribusiness.

We're not asking you to tinker around the edges of a failed policy. We're asking for a return to common sense.

We believe that a primary goal of the commodity program should be to provide economic stability and opportunity for farmers; a program which recognizes market realities, resource sustainability and food security and safety issues.

We believe that commodity loans should be dramatically modified to better reflect the cost of production for farmers. The current program artificially capped loan rates and ignores the marketplace, ignores production factors, and ignores the rising costs of crop inputs.

We believe that commodity loan rates should not distort the markets as they currently do. We must take steps to restore equity in loan rates. In Iowa, this means raising the corn loan rate, not reducing the soybean loan rate. We propose that commodity rates be based off of an average cost of production. Our proposal would place that loan rate as high as possible but not lower than 80% of the three year average cost of production. It is time our loan rate reflected economic reality and common sense.

We believe that we must take steps to control our inventory. In this regard, no other production industry ignores the marketplace like agriculture. We are foolish to expect a marketplace, foreign or domestic, to blindly comply with our inventory needs.

To manage our inventories we believe we should we should establish reserves to ensure our commitment to renewable fuels production even in times of reduced feedstock supplies. We should establish reserves to ensure our commitment to humanitarian food assistance.

And finally, we should establish reserves in a limited farmer-owned reserve program. Participants should receive annual storage payments in exchange for storing crops until prices reach the cost of production.

In addition, no industry can expect to continue to produce in a volume that exceeds market demand. We believe the Secretary of Agriculture should have the discretionary authority to offer a voluntary set-aside program. We feel that farmers should be rewarded with a raise in commodity loan rates which reflects the level of the set-aside.

We feel strongly that program benefits need to be directed to family-size producers. Unrestricted government payments, which the current program effectively provides, leads to large farmers using government assistance to bid up land prices and cash rents to levels completely out of line with commodity prices.

Targeting needs to take place with all government support, including subsidies for crop and revenue insurance. If certain large-scale producers want to farm half the county, let them do it. But don't let them take taxpayer money to finance it. We farmers have a covenant with the American people to provide a safe and secure food supply and we take our commitment seriously. We break that covenant if we subsidize a land grab.

As farmers, we also have a responsibility for sound land stewardship. Farming stretches across generations in families. We don't own land as much as we borrow it from our children and try to make the best use of it as our contribution. Senator, we strongly support the Conservation Security Act that you have worked hard to develop.

We also urge congress to expand the Conservation Reserve Program and to develop a short-term soil rehabilitation program.

Enhanced rural development programs must be an integral part of the farm bill discussion and that enhanced cooperative development should be central in that discussion.

Commodity production research should be directed to creating value that benefits family farmers. Funding should be targeted to the multi-functional aspects of agriculture, including less capital intensive technologies, alternative value-added products, energy conservation and renewable energy development.

Concentration of resources and market power among a few large and highly integrated agribusinesses has reached an all-time high. Before large agribusinesses merge, economic impact statements should detail the effect on farmers and on consumers. All mergers should be examined according to their effect on anti-competitive practices. Tighter enforcement of anti-trust laws is essential. Until these steps are taken, a moratorium on agribusiness mergers should be immediately enacted.

In addition, discriminatory pricing and packer ownership of livestock should be immediately stopped. Check-off program work should be targeted to the benefit of family-size producers. Check-off referendums should be regularly held and accountable

to producers. And most of all, producer referendum ballots should be respected and not ignored no matter which side has the moneyed interests.

In closing, Senator, your work in this next year on agriculture issues will leave a permanent mark on the direction of agriculture in the 21st Century. While I want our policy to make us leaders in production and efficiency, I want more that our policy points us to a strong healthy rural Iowa and rural America. I want to pledge our efforts to help make agriculture policy responsive to farmers and rural communities while providing consumers with safe and secure food.

Thank you for your time and I look forward to answering any questions you may have.

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Statement of

Denise O'Brien

Women, Food and Agriculture Network

To The

Senate Agriculture Committee

Hearing on the Future of the Farm Bill

And Related Topics

Lewis, Iowa

Saturday, March 4, 2001

Senator Harkin, Thank you for allowing me to testify today. I am Denise O'Brien, 25 year organic farmer from north of Atlantic and Coordinator for Women, Food and Agriculture Network. I have been testifying for 20 years before Agriculture Committees both here in Iowa and in Washington D.C., bearing witness to the demise of the family farm. You'd think I would be cynical, but I still have optimism that some day something will change.

First of all I must make a comment about the lack of gender balance on the panel today. Women do have a voice in agriculture and to leave out that voice – you have left out a voice that could add to the solutions for agriculture.

I am speaking on behalf of organic agriculture and on behalf of Women, Food and Agriculture Network. There is an alternative agriculture that is generating profit and for the U.S.D.A to leave out research and development monies towards a profitable sector of agriculture is a grave mistake.

Recently the Organic Farming Research Foundation released "State of the States – Organic Farming Systems Research at Land Grant Institutions 2000-2001, compiled by Jane Sooby. I will quote: " Over the past 138 years, the land grant system has invested billions of dollars in researching agricultural practices and inputs. While gaining recognition as the engine beneath the hood of modern U.S. agriculture's astonishing increases in productivity, the land grant system also has come under attack over the past

30 years for serving corporate agricultural input manufacturers and large-scale producers to the exclusion of small-scale and low-input producers. The land grant system's institutionalized focus on purchased chemical inputs and mammoth-scale production marginalized many other areas of inquiry, including smaller scale and more environmentally appropriate farming techniques.

The good news is that land grants in 39 states have research and/or resources relevant to organic producers. Land grant institutions in 19 states reported research acreage being managed organically, 12 of which have research land that is certified organic or in transition to certification. The bad news is that of the 885,863 available research acres in the land grant system, only 0.02%, or 151 acres, is being used for certified organic research. This is an order of magnitude less than the 0.2% of all U.S. farmland identified by USDA as certified organic in 1997.

In Iowa we have the only organic specialist at a land grant college in the United States – Kathleen Delate. Kathleen is overworked and understaffed and very difficult to get in touch with for information because she is always out in the field doing research.

Private sector agriculture has taken it upon themselves to do organic research – in Iowa we have the Practical Farmers of Iowa.

We have the Heartland Organic Grain Cooperative that has been in existence for eight years operating in the black and currently purchasing the grain elevator at Stuart, Iowa

and will be handling semi-loads of grain. Organic production is in grave danger due to GMO contamination. Organic farmers that are making a profit are in danger of losing their markets due to GMO contamination. Now that the national standards are in place for organic certification and there is a zero tolerance for contamination, farmers are in direct conflict with the standards. Organic ag is a growing industry – it is an agriculture that can be a vehicle to help the floundering small and medium sized farms survive and a vehicle to save our most valuable resource – the land.

Earlier this morning someone mentioned using crops for biomass. I would like you and people here to know that next Saturday morning in this very building there will be a workshop on alternative fuel production. The meeting is sponsored by the Union of Concerned Scientists and Alan Teel, Cass County Extension specialist, will be a part of that workshop.

Thank you for holding this hearing, Senator Harkin.

A 2001 WAY TO PROVIDE NEEDED HELP TO FAMILY FARMS THROUGH A CREATIVE CHANGE IN L.D.P PAYMENT SYSTEM.

THE L.D.P. HAS OFFERED A MARKETING CHALLENGE TO FARMERS, BUT IT JUSTIFIES A FAILURE OF OUR GIANT MARKETING COMPANIES TO PROVIDE A FAIR PRICES FOR THEIR PRODUCTION. THEY ARE WORKING THE U.S. FARMERS AGAINST THE FARMERS IN ARGENTINA, BRAZIL, CHINA AND OTHER COUNTRIES. THEY RIDE THE PRICES DOWN TO BOTTOMS WITH ABSOLUTELY NO LOYALTY TO THE GROUP THEY REALLY DEPEND ON.

MAYBE CONGRESS CAN CHANGE THE L.D.P. SYSTEM A LITTLE THIS YEAR TO A PROGRAM THAT WILL REALLY BENEFIT THE SMALL FARMER. INSTEAD OF SET-ASIDES THAT CAN'T BE INITIATED, BECAUSE OF THE TIME FACTOR AND THE PROVISIONS OF THE 1996 FARM LAW. THE REGULATIONS FOR THE OPERATION OF THE L.D.P. PROGRAM HAVE NOT BEEN ABSOLUTELY SET.

LETS SET UP THE L.D.P. SO THAT THE PAYMENTS WILL BE MADE AVAILABLE TO THE BUSHELS PRODUCED OR NOT PRODUCED BASED ON A FORMULA THAT CALCULATES THE PORTION OF THE CROP THAT A FARMER WOULD BE ENTITLED TO IF HE WAS PRODUCING WHAT WAS HIS SHARE OF ESTIMATED USAGE BASED ON THE PERCENTAGE OF THE EXPECTED CROP THAT IS CALCULATED IN JULY WHEN THE TOTAL CERTIFIED ACRES ARE KNOWN AND THE GOVERNMENT HAS MADE THE ESTIMATE FOR THE AVERAGE YIELD AND THE ESTIMATED USAGE FIGURE FOR THE 2001 2002 PERIOD AND THE EXPECTED CARRYOUT AS OF SEPTEMBER 1, 2002. THIS SYSTEM WOULD BE ADDITIONAL HELP FOR FARMERS SUFFERING FROM DROUGHT, OR OTHER DISASTERS.

HERE'S HOW IT WOULD WORK. THE BUSHELS THAT A FARMER WOULD BE ABLE TO L.D.P. WOULD BE BASED ON THE PERCENTAGE OF THE ACRES NEEDED TO PRODUCE THE USAGE FIGURE AT AVERAGE NATIONAL YIELD DEVELOPED FOR THE CROP IN RELATION TO THE TOTAL ACRES PLANTED. IF THE ACRES NEEDED WOULD BE 95 % OF THE PLANTED ACRES, THEN EACH FARMER'S SHARE WOULD BE 95 % OF HIS PLANTED, AND CERIFIED ACRES TIMES THE NATIONAL AVERAGE YIELD AS HIS L.D.P. BUSHELS WHETHER HE PRODUCED THEM, OR NOT. THIS METHOD PROVIDES SOME BADLY NEEDED INCENTIVES TO LET THE HIGH YIELD PRODUCERS RECOGNIZE THAT THEY ARE PART OF THE OVER PRODUCTION PROBLEM AND SINCE THERE IS NO WILLINGNESS TO SET UP ALTERNATIVE PROGRAMS FOR PRODUCERS ON MARGINAL LAND WHO HAVE LITTLE CHANCE FOR PROFIT, EVEN WITH VERY FAVORABLE PRICES, BUT CONTRIBUTE TO THE OVER SUPPLY, THIS PROGRAM WOULD GET HELP TO THOSE WHO REALLY NEED IT.

SOME DAY, MAYBE COMMON SENSE WILL RETURN AND FARMERS WILL ACCEPT THE FACT THAT THEY NEED HELP TO KEEP THEIR PRODUCTION IN LINE WITH USAGE AND THAT SET ASIDES, OR BETTER YET HELP IN FINDING ALTERNATIVE CROPS ON THOSE MARGINAL AND NOT NEEDED ACRES OF SUPPORTED CROPS AND FARM INCOME WILL ONCE AGAIN COME FROM THE MARKET DESPITE THE SAD EFFORTS OF OUR GRAIN MARKETING GIANTS WHO HAVE FAILED US SO OFTEN YET WITH THE HELP OF A FARM ORGANIZATION KEEP LEADING US DOWN THAT BRIMROSE PATH TO DISASTER.

Harold Swanson

HAROLD R. SWANSON, 210 EAST FLORENCE, BLENWOOD, IA. 51534
712-527-9695

MEMO

To: Sen. Tom Harkin

**From: E. Joyce Schulte, Director, Student Support Services program
Southwestern Community College, Creston, IA.**

Re: Thoughts on future work

#1. In terms of Food Stamps...I'd like to suggest that Food Stamps be made more available to college students provided they demonstrate academic success at the 2.20 level, are working with a TRIO program & have TRIO personnel vouch for semester by semester success in the academic world.

#2. Add TRIO staff to those who are eligible for student loan forgiveness.

**#3. Greatly increase TRIO funding in order to bring more Iowa students into an extremely credible program that has for 35-plus years demonstrated they are effective in getting students into college, keeping students in college until graduation or transfer to a 4-year college or university, or on to graduate school.
Let's truly "leave no child behind" by making it possible to serve more than 6-10% of the eligible population.**

#4. Increase the value of a vehicle for college students who are demonstrating success in order to qualify for Food Stamps.

With thanks.....



E. Joyce Schulte

Honorable Tom Harkin U. S. Senator of Iowa
 U> S> SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
 HEARING ON AGRICULTURAL AND RURAL COMMUNITY ISSUES
 SENATOR TOM HARKIN, CHARIMAN, MARCH 24, 2001

Wallace Foundation Armstrong Reseach Farm, Lewis, Iowa. March 24, 2001

Testimony.

"I am Erwin Aust, from Shenandoah, Iowa an Assistant Commissioner for the Page County Soil and Water Conservation District and a State Board Member of IOWA WATERSHEDS.

Thank you for the opportunity to make a presentation Senator Harkin.

Our organization, IOWA WATERSHEDS, supports planning and treatment of soil and waters conservation needs on a watershed basis. Many conservation needs go beyond individual farms and have to be treated on a watershed basis. Many groups and agencies are recognizing and promoting this.

We appreciate your support to this effort Senator Harkin. In your opening statement you said "We should strengthen our present conservation programs and adopt new ones to support both farm income and conservation", this is well received and supported by us.

IOWA WATERSHEDS is organized to support programs like the Small watershed PL 566, Little Sioux PL 534, Hungry Canyons, Water Quality and other existing programs used in Iowa. Today I would like to address the successful PL566 program used in 36 Soil and Water Conservation Districts in Iowa and currently authorized for operations in 22 counties today.

Funding Nationally was cut in half in 1993 when the program dollars were justifiably shifted to address an emergency the "1993 Midwest Flood", with the intention to restore it the following year. This has never been done. The program has operated at a four to five million dollar level in Iowa but recently we have only received one million and this year only 360,000 dollars.

In the Page District, where the Mill Creek watershed is authorized it would help greatly with the backlog of conservation work requested by farmers willing to do work on a cost share basis. This need was outlined in detail earlier by Mr. David Williams in his testimony. Mill Creek has received very little funding and no funds in recent years. This is due to the limited National funding and consequently the allocation to Iowa.

(Comments by Senator Harkin at this point, stated the number of structures that have been built nationally and in Iowa and the significant number reaching the fifty year age and in need of rehabilitation which is part of the of the annual five million dollar need in Iowa.) Thank you for pointing that out Senator Harkin.

The many watershed projects in Iowa have made a large impact on Rural Iowa development and conservation progress. The projects have provided erosion control, flood prevention water supply, water quality protection, wildlife enhancement, wetland restoration development and recreation in cooperation with significant local and state partnerships. Many projects, already planned, in Iowa and Nationally await the federal portion of funding to make successful conservation progress. IOWA WATERSHEDS Chair, John Glenn, wrote you last week outlining the state and national needs in more detail than we have time for here. I hope you can add that information to the testimony. It is important to have the needed 250 million dollar level of funding of a decade ago restored. I appreciate this opportunity to present information." Sincerely, Erwin Aust

DOCUMENTS SUBMITTED FOR THE RECORD

MARCH 24, 2001

March 23, 2001

Senate Agriculture Committee Hearing

Lewis, Iowa

This is a copy of a brief statement given to the National Research,
Extension, Education and Economics Advisory Board.

March 11, 1998
Washington, D.C.
Sponsored by the United States Department
of Agriculture

We are a fifth generation family farm producing livestock and grain in Southwest Iowa. The land in our area consists of river bottom land and fragile rolling hill land. Quality of life and an adequate standard of living are the main goals of our farm. Soil conservation practices and care of our land has had a high priority from the time our land was first broken from the prairie. Two of our sons farm with us. We have a farrow to finish hog operation, a cow-calf production, and corn-soybean, hay and pasture on our farm. Community activities have been an important part of our life.

I would like to comment on two topics:

1. Environmental Stewardship
2. Importance of Family Farms

Both Environmental Stewardship and Family Farms are connected in the roots of agriculture.

First: Environmental Stewardship

Only in recent years is the word "sustainable" a common word in our vocabulary. I now realize that my father's conservation practices and land ethics is what true sustainable agriculture is called today. We have made great progress since the Dust Bowl of the 1930's when the soil was blown from the prairie to our nation's capital. In the first 100 years of farming our productive soils of Iowa, we have lost one half of our topsoil. This is some of the most productive soil in the world. I think the most progress in my life in protecting the land was the conservation section of the 1985 Farm Bill that required every farmer enrolled in The Farm Program to have a conservation plan for their farm. We have seen a big increase in no-till and in minimum till farming. This has greatly reduced soil loss. With the reduced soil loss we have reduced pollution of harmful chemicals in our rivers and streams. Land set aside in the Conservation Reserve Program has set aside our most highly eroded land (HEL) further reducing soil loss, however soil loss is definitely not at an acceptable level even now.

Reducing soil loss with the end result being improved water quality will continue to be one of the biggest challenges to America and to the World. We are going to hear and read a great deal about the pollution of the Gulf of Mexico called Hypoxia or Dead Zone. The Mississippi River Basin, draining to the Gulf, is a watershed that covers 40% of the land mass in the United States. This is the production agriculture section of our country. To protect the Gulf and to provide clean water will require more conservation practices on the land. I would like to suggest some of the practices that are being done and which need further research. For example, a small watershed on which our farm is located is bringing together 3500 acres and 21 land owners to study the water quality of this watershed. We will do an inventory of the soil, the crops, the livestock numbers, the timber, the wildlife, and the recreational opportunities. We will work with both the public and private entities to determine what practices need to be done. Reducing soil loss and improving water quality will be our main goal.

The Leopold Center at Iowa State University has conducted research on protecting riparian areas with buffer strips along streams that drain extensive crop acres. This research looks very promising and we should be able to further improve this practice, the goal being to improve water quality.

The current conservation section of the Farm Program allows buffer strips along streams and field borders to be put in the 10 year CRP program. This method of watershed protection is basic to improving water quality.

Research on crop rotation, no-till and minimum till of row crops, rotational grazing of livestock, proper testing of fertilizers for crops, and many sustainable agriculture practices are being researched at Iowa State University research farms in different locations in Iowa. The Leopold Center, now in the Center's first 10 years, has funded research for many sustainable agriculture practices. The Practical Farmers of Iowa (P.F.I.) have conducted sustainable agriculture on member farms with livestock and crops. These are models that USDA could research to improve our environment.

As we strive to meet The Clean Water Act, these conservation methods will be most important to improve the water quality of our nation.

Second: Importance of Family Farms

I am proud to be a farmer that produces food and fiber for human consumption which is one of the most essential of man's necessities. To wake up in the morning, to be your own boss, to make your own decisions is an independence that few people experience.

It seems to me in our fast moving modern information age we never seem to sit back and look at the long term range of events. Agriculture has been on a fast pace. When land prices got high in the early 80's, many farmers went to cash grain operations and got out of the livestock business. Our own farm operation was a diversified hog, cattle, and grain farm with very little outside labor. Producing our own grain for feed, we gained financially in this period, put 5 children through college, reduced debt, and later purchased additional land. This was during the time when many farmers lost their land or went heavily into debt. Our children learned the responsibility of doing farm work, having their own livestock projects, and gained an appreciation of nature. An understanding of caring for plants and animals is a rewarding experience for family members.

Is it better to have one 1000 sow corporate farm or five farms with 200 sows each? And is it better to have a 5000 acre corn-soybean farm or ten 500 acre farms?

Some will say a 500 acre grain farm with a 200 sow farrow to finish operation would not return an adequate profit for a family farm but I say that it can compete as efficiently and as profitable as any farm enterprise.

One of the most exciting projects I have been involved with in the past 8 years is the beginning of a research farm in a 19 county area of Southwest Iowa. This is The Wallace Foundation for Rural Research and Development. We organized for the purpose of site specific research for diversified agriculture.

The strength of the Wallace Foundation Research Farm is working with advisory committees on livestock, crops and conservation. These are grass-root committees made up of producers, extension, agribusiness, and Iowa State University personnel. These committees direct the research that we are conducting on the two farms we now own.

Crop research is being done on crop rotation, tillage methods, fertilizer application methods, crop planting dates, different chemical applications, and recently, with precision farming methods.

Our livestock research is being done with the Swedish system of swine. This is with the Hoop Buildings and the deep bedding system of farrowing and nursery age pigs. These are low input buildings for swine. In cattle we have a small feedlot with four 50 herd pens with partial inside housing. We will work with manure utilization feedlot run off and rotational grazing. This is the type of research that USDA should fund for diversified family farms that are raising livestock and crops.

As our Wallace Foundation progressed, we realized we needed to be involved in education and rural development. In the process we raised over \$1,000,000.00 to build a learning and outreach center. We moved into this building in December 1997. The building will have a fiber optics facility that will allow us to network with any location. We will bring a hands on classroom to our community colleges and our land grant universities.

We have a value added committee that has already brought us a beef enterprise that has 150 members with 15,000 cattle. This is an alliance of beef producers that seeks to connect every facet of beef production from cattle genetics to the consumer.

To add value to our grain through livestock, further processing of grain, specialty crops and niche marketing of livestock and poultry is the type of research support we need from USDA to help family farms.

We have a group in Iowa called Ag-Connect that is working to bring retirement age farmers together with young farm-couples wanting to get started in farming. This is very exciting and is an entry to keeping farms sustainable. The Center For Rural Affairs in Walthill, Nebraska has been a pioneer in this project.

Farmers working with alliances and coming together to form cooperatives to build a value added processing plant deserve support from USDA.

The Wallace Foundation is also currently working jointly with the Economic Development groups in our Southwest Iowa area to communicate the advantages of industry and value added processing.

These are some examples of research and rural development in our area that can be models to build on.

Grassroots people working in committees have been the key to the success we have had in our area. I think USDA should support our research with expertise and financial aid.

Environmental Stewardship and Family Farms Complement each other as both involve land ownership and a strong concern for the community and the land. Sustainable agriculture is compatible with sustainable communities and corporate agriculture is not. We must strive to strengthen family farms.

Economic and technological development is out of balance with social development. I want to stress that the emphasis on economic and technological development far out weighs the emphasis on our social development. To encourage larger farms, to move people to larger cities is a road to disaster. Examples of this are Mexico City with 25 million people which is 1/3 of Mexico's total population, and China with its rural exodus to the cities. Both ~~cases~~ ^{countries} have huge societal problems.

Some would say I am emotional about family farm issues. It is an emotional issue. We are at a crossroads. I think it is time our farm organizations, our commodity groups, our land grant universities, and our government at state and national levels draw a line in the sand and decide whether they are going to support family farms or corporate agriculture. These groups cannot continue to straddle the fence if family farms are to remain viable.

To quote Aldo Leopold:

"We abuse land because we regard it as a commodity belonging to us. When we see land as a community to which we belong we may begin to use it with love and respect."

To me this speaks to the sustainability of the land and to family farms.

I appreciate the opportunity to share my ideas and thoughts with this USDA Advisory Committee on REEF.

Watershed Information sheet for your reference March/2001**Watershed Surveys and Planning**

National budget recommendation: \$25 million
Needs in Iowa are \$ 1 million

- The appropriations budget for watershed planning has remained static for several years, while at the same time the Congress and the Administration has placed greater emphasis on water resources and water quality using a locally-led planning and implementation process. The Small Watershed Programs should fit into the water quality planning needs for local communities.
- Watershed Surveys and Planning funding could be utilized to assist states, local communities and watershed project sponsors in complying with the Total Maximum Daily Loading (TMDL) requirements mandated by EPA.
- We ask your support for \$ 25 million in surveys and planning projects.

Watershed Protection and Flood Prevention operations.

National budget recommendation: \$250 million
Needs in Iowa are: \$ 5 million

- The 250 million in annual appropriations is required to bring the Small Watershed Program operations account back to a funding level more truly representing the documented needs that exist in the states.
- A large number of watershed project sponsors or communities have projects planned and authorized for implementation, but cannot proceed because the federal funding share is not available. There are presently 518 active PL-566 projects and 9 PL-534 projects. The unfunded federal commitment (backlog) for the Small Watershed Program (PL-566 and PL-534) is approximately \$ 1.4 billion dollars. Over the last five years, communities have received authorization for 57 watershed projects in 32 states for a total of \$348 million.
- In FY 1994, Congressional appropriations for the small watershed programs were cut in half to help pay for the disaster relief and recovery necessitated by the "Great Midwest Flood" in 1993. Unfortunately, instead of the one-year adjustment to program funding that was indicated at the time, the watershed program appropriations have been cut in half and remained steady at about the \$100 million level every year since. This is in spite of a documented and historical need more near \$250 million annually. In the last five years, local communities are also attempting to partner with the federal government using the watershed program in order to mitigate for natural disasters and solve local natural resource problems. Every state, Puerto Rico and the Pacific Basin Territories, want to use this authority to help solve problems. At the current rate of funding we are falling behind every day. We ask your support of \$250 million in annual operations appropriations.

Watershed Structure Rehabilitation (aging watershed infrastructure)

National budget recommendation: \$60 million (nationally)
Needs in Iowa are \$ 1 million.

- Local communities and project sponsors recognize the fine work USDA, through NRCS, has done over five decades in helping local communities install flood prevention structures and other watershed management practices that benefit society and the environment. Legislation was passed in the 106th Congress that would address the critical problem of our aging structure infrastructure (PL 106-472). We know that many of the older dams, installed with the assistance of the various USDA small watershed programs (PL-534, Pilots, PL-566, RC&D) and now being operated by the local sponsors, are experiencing serious safety problems.
- Local communities, with NRCS assistance, have constructed more than 10,000 small flood control dams in 47 states since 1948. (There were no project dams in Delaware, Rhode Island, or Alaska).
- These projects were authorized under the following programs:
 - PL-434 - Flood Control Act of 1944
 - PL-566- (Small Watershed Program) - Watershed Protection and Flood Prevention Act of 1954
 - Pilot Watershed Program (1952-1954) - 62 projects in 33 states
 - Resource Conservation and Development (RC&D)

- These watershed projects represent a \$14 billion national infrastructure investment (\$8.5 billion federal appropriations; \$6+ billion local contributions: 1997 dollars).
- Projects provide flood control, municipal and irrigation water supply, recreation, erosion control, water quality improvement, and wetland and wildlife habitat enhancement on more than 130 million acres in the nation.
- The nation's small watershed program yields monetary benefits of more than \$1 billion each year.
- These are federally **assisted** projects, not federally owned projects. Local sponsors own and operate them.
- The majority of these dams were planned and designed with a 50-year life span. The average age of these project dams is 35 years old.
- Many of these dams are approaching the end of their design life span.
 - 35 are already beyond the end
 - 450 will be within the next 5 years
 - 1800 will be within the next 10 years
- Time has taken its toll on many dams. Common problems of older dams:
 - Deteriorating metal pipes and structural components of the dams. (After 50 years, metal rusts and fails).
 - Reservoirs fill with sediment. Sediment displaces storage of floodwaters. Some sediment may have contaminants from chemicals and pesticides applied on upstream lands in years past.
- Dams control floods by temporarily storing runoff from large storms then slowly releasing it through a drawdown pipe. Without rehabilitation of these dams, millions of acres of flood plains that have been protected for the past 50 years will again experience devastating floods - just like the 1930's and '40's before the watershed dams were constructed.
- Dams are part of the national aging infrastructure that requires attention just like highways, bridges, storm sewers, schools buildings, etc.
- Local sponsors are responsible for operation and maintenance of the dams and most have done a good job for the past 50 years. Now, many dams need to be rehabilitated. Most local sponsors do not have the funding needed. Until PL 106-472 was enacted, there was no federal authority or funding to assist sponsors with rehabilitation.
- FY 2000 and FY 2001 Appropriations Bills authorized use of \$8 million EWP funds each year for pilot rehabilitation projects in New Mexico, Mississippi, Wisconsin, and Ohio.
- Key Quote by Congressman Frank Lucas (OK): "Let's not wait for another natural disaster to test out our 50-year old dams! Action is needed now before a dam fails and a tragedy occurs."
- Many communities are becoming more concerned about the need for rehabilitation of aging watershed dams that have protected them for the past 50 years.
- The Small Watershed Program is important to the state of Iowa. Local community leaders and project sponsors work closely with USDA Natural Resources Conservation Service to plan and implement watershed projects that provide flood control, water quality improvement, wetlands and wildlife habitat enhancement, municipal water supplies, and other resource needs of the community.
- We ask your support of \$60 million in annual appropriations for rehabilitation of dams eligible for assistance under PL 106-472.

The state of Iowa has made good use of the watershed program and has continuing needs for the program. We ask your support to bring it back to an active status for the benefit of Iowa and the Nation.

IOWA WATERSHEDS. member of the National Watershed Coalition.



PROPOSAL FOR IMMEDIATE EMERGENCY ACTION TO DEAL WITH THE ONGOING AND DISASTROUS STATE OF THE AGRICULTURAL AND RURAL ECONOMY IN THE U.S.

1. Abolish all Deficiency (LDP) Payments immediately. (They are nothing more than an indirect subsidy for the Multi-National Grain Companies and domestic processors.)
2. A – Adjust the loan rate for 80% of our “historic production”* for corn to not less than \$2.65 per bushel
 B – Adjust the loan rate for soybeans for 80% of the county average yield to at least \$6.50 per bushel.
 C – Adjust the loan rate for wheat to \$3.75 per bushel for 80% of the county average yield for irrigated/dry land.
 D – This data is all currently available at the FSA Offices throughout the country and could be enacted immediately. These loans should not be forfeited until the local market price was at least 10% above the loan rate or until maturity of the loan.
3. Establish a Strategic Farmer Owned Grain Reserve.
 - A – Corn – 1 Billion Bushels minimum
 - B – Soybeans – 200 Million Bushels minimum
 - C – Wheat – 500 Million Bushels minimum
 1. This grain could not be marketed unless the price exceeds the loan rate by at least \$.50 per bushel. Shortage should be at least \$.25 per bushel per year, paid to the producer.
 2. This should also be a serious National Security/Defense consideration, to maintain an adequate food supply/ reserve in case of a National emergency.
4. Establish a one year mandatory set aside of at least 5% of the Total Crop Acres on a given farm.

A - This would effectively reduce production by 2 - 3% and would be very beneficial for the environment and conservation practices.

5. There certainly needs to be more done with the next farm bill to ensure that production agriculture, based on a "family farm" concept, and all of rural America, receive their "fair share" of our country's wealth in the future.

This is an Emergency Proposal that could and should be enacted immediately to help to control the serious crisis in agriculture that has existed for the past three years, and is getting steadily worse, and exacerbated by current farm policy. It is not too late to enact these proposals for 2001. I would remind those in doubt what transpired in 1983 when the "PIK Program" was established. Certainly not the best program, but at least an honest effort was made in a short period to address a very serious agricultural problem.

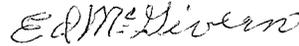
6. If we fail to address this very serious crisis immediately we will all pay a very big price in the near future.

1 - These proposals would be cost effective and cost the Federal Government far less than the present policy.

2 - Let us all remember that: "Evil prevails only when good men and women fail to have the courage to stand and be counted".

If there is a will there is a way.

Ed McGivern



Keystone, Iowa

- * - "Historic Production" is the feed grain acre base times the yield index for each individual farm. This data is on file at the local FSA Office for all participating farms. i.e. - 100 acre base, less 5 ac.(SA) = 95 ac. x 125 bu.
Historic yield = 11875 x 80% = 9500 bu. x @\$2.65 loan = \$251.75 per acre.

CENTER *for* RURAL AFFAIRS



The Agricultural Community Revitalization and Enterprise Initiative (ACRE)

The Agricultural Community Revitalization and Enterprise Initiative (ACRE) offers farmers and ranchers the tools they need to increase their share of the profit in the food system. It provides rural people with the resources to increase self-employment opportunities in their communities.

The farm and ranch share of the food system profit is falling rapidly - so rapidly that an extension of the current trend line to 2030 would drop producers' profit to zero. Producers now capture between 7 and 8 percent of every dollar of food system profit.

In order to increase their share of the food dollar, producers are eager to tap more lucrative markets - both foreign and domestic, adopt new technologies gained through innovative research, and build novel, entrepreneurial partnerships. ACRE might fund a market feasibility study to find premium markets for food grade corn or soybeans, and new markets for beef or pork.

Producers are also looking for new knowledge and production systems that enable them to increase profits by using their management and skills to either cut capital and input costs or produce products of higher value. ACRE can help fund research resulting in production practices or new technology that increases producers share of food system profit.

The Agricultural Community Revitalization and Enterprise (ACRE) Initiative would provide a \$500 million federal program to turn innovative ideas and entrepreneurial approaches into a better future for agricultural communities. ACRE would provide competitive grants to cooperatives, producer associations, universities and other organizations (up to \$250,000 each), and producer opportunity payments to farmers and ranchers (up to \$15,000 each) to support research, education, market development, and farm innovation that:

- Increases the farm and ranch share of food system profit;
- Supports revitalization of agricultural communities through entrepreneurship, value-adding enterprises, new production systems, and alternative marketing channels; and
- Enhances food security and offers greater consumer choice and access to a diversity of agricultural products produced in a manner that contributes to the social, environmental, and economic vitality of agricultural communities and the nation as a whole.

Both the Collaboration and Producer Grants under ACRE would support the following activities.

- | | |
|-------------------------|------------------------|
| * applied research | * education |
| * training and outreach | * technical assistance |

news release

For immediate release:
March 2, 2001

Contact:
Rich Degner
800-372-7675

BULLETIN

Pork producers support checkoff settlement

The board of directors of the Iowa Pork Producers Association reviewed and discussed the pork checkoff settlement agreement at a regularly scheduled board meeting on March 1.

Under the terms of the pork checkoff settlement agreement, the National Pork Board (NPB) will be distinctly separate from the National Pork Producers Council (NPPC), including a physical separation of both organizations. Based on these guidelines, the IPPA board of directors expressed their support for the pork checkoff settlement agreement that will allow the pork checkoff to continue.

"The agreement, filed with Federal Court in Michigan's Western District, was reached by the major parties, including the USDA, in a negotiated settlement of the legal action," said Joel Van Gilst, a producer from Oskaloosa and president of the IPPA. "Pork producers should clearly understand that the USDA did not overturn the results of the referendum."

The National Pork Board will now assume the allocation and utilization of pork checkoff funds in the areas of research, promotion and producer education previously contracted with the NPPC.

The NPPC will now focus its efforts and activities in the areas of public policy and legislation in support of the pork industry.

"While the IPPA was not a party to the lawsuit, this settlement is a win for all parties," added Van Gilst. "It provides for the continuing investment and benefit of the pork checkoff, on a fair share basis, for all producers large and small. It also provides the remedy for those dissatisfied with NPPC public policy issues. Checkoff programs and public policy will no longer be under one roof."

-30-



**IOWA PORK
PRODUCERS ASSOCIATION**

P.O. BOX 71009, CIVIC, IOWA 50325-0009
1425 NEW 114TH STREET, CIVIC, IOWA 50325-0071
515-325-7675 • FAX: 515-285-0563 • 800-372-7675
email: info@iowapork.org

GMO, STAR LINK, SURPLUS CORN Blend it with coal in coal fired generators and produce electricity.

Some thoughts on various problems we are confronted with in the world today.

- #1 **GMO/Star Link, Surplus Corn**
Millions of bushels need to be disposed of, the world trade doesn't want.
- #2 **Cutbacks and setasides will not reduce the world supply of grain.**
If the USA cuts back other countries are poised to grow more.
- #3 **Congress did not come through on promises to find new uses for grains.**
Finding new uses was part of the "Freedom to Farm" act.
- #4 **Billions of dollars have been spent propping up the price of commodities.**
No matter how much is spent we still have low prices and surplus supplies.
- #5 **We have an abundance of coal stored in the ground, but some try to stop it's use.**
Natural gas generators drove up the price of this energy for everybody.

1 solution

Blend corn into the stream of coal that is being ground to fire the generators.

- #1 **Get rid of corn the world trade does not want.**
If we offer it and they say no, fine we have a use for it, might change their minds.
Begging someone to take something they don't want doesn't work.
- #2 **Farmers like to grow corn, yields are increasing, let them grow all they can.**
Other countries can do the same thing.
- #3 **Give "Freedom to Farm" a chance to work.**
New use could create a huge demand.
- #4 **Costs would be less, and the bushels would be gone.**
The surplus would not be hanging over our heads from one year to the next.
- #5 **Burning corn is CO2 neutral.**
Growing the crop would use as much CO2 as the burning would produce.

Stanley Oswald
4632 "I" Ave.
Cleghorn, Iowa 51014-7006

712-436 2434
E-mail soandso@netins.net



THOMAS J. VILSACK
GOVERNOR

OFFICE OF THE GOVERNOR

SALLY J. PEDERSON
LT. GOVERNOR

March 23, 2001

The Honorable Senator Tom Harkin
Senate Agriculture Committee
U.S. Senate
Washington D.C. 20515

Dear Senator Harkin:

The National Governors' Association recently convened a summit on "Private Lands, Public Benefits" with attendees representing 34 states and over 40 organizations. The summit clearly showed the broad interest in new farm policies that make farms more profitable and reward farmers for producing conservation commodities in addition to food and fiber. These conservation commodities include wildlife habitat, open spaces, scenic beauty, richer soil, and clean air and water that all Iowans value.

Current U.S. agricultural policy is not meeting the needs of producers or the American public. A new approach to farm policy is needed to manage the economic crisis in agriculture, address our trade limits on farm subsidies and acknowledge the public expectations of agriculture. We currently spend \$10 per acre on public land conservation compared to \$2 per acre on private land conservation even though approximately 70% of the contiguous United States is privately owned. Private lands, our working lands, simply need more attention, and private landowners need more help.

We are at a critical stage in American agriculture that will determine the fate of many people that work the land. We need a commitment to keep people on the land. You have shown real leadership in this area with the introduction of the Conservation Security Act, and your work is important to farm families across our country.

I encourage you to develop the next farm bill to help farmers produce conservation commodities, improve their bottom line and renew the public commitment to agriculture. Total funding for all agricultural conservation programs is less than 10% of the USDA budget (excluding food stamps). A "conservation reserve fund" should double existing conservation funding to cover ongoing and depleted programs and allocate another \$5 billion annually for new programs to encourage landowners to accelerate integration of conservation practices into their farm operations. As you know, Iowa farmers take pride in their stewardship ethic. We need to start rewarding them for the steps they have taken and create incentives for them to do even more.

As with many other Iowans, I am keenly interested in the next farm bill and will work with you and other members of the Agriculture Committees to elevate the importance of conservation on private lands. Thank you for listening to the people of Iowa on this important topic.

Sincerely,

Thomas J. Vilsack
Governor



3321 E. 26th Street #4
P.O. Box 85102
Sioux Falls, SD 57104

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Minnesota Corn Growers Association

Robert Starr
Minnesota Wheat Council

Trevor Guthmiller
Executive Director

TO: Rod ~~Bachaus~~
Backhaus

FR: Trevor T. Guthmiller

DT: March 21, 2001

RE: Lugar / Harkin Visit -- Ag Policy

As Congress begins to address the next Farm Bill, we believe that there are a variety of issues that need to be considered. As farming has changed, so the next Farm Bill needs to change to reflect the new emphasis on value-added agriculture. The following is a list of things that should be included in the new Farm Bill.

- 1. A Renewable Fuels Standard:** Both Senator Lugar and Senator Harkin have been tremendously supportive of renewable fuels. Some sort of requirement for renewable fuels should be included in the next Farm Bill (if one is not passed sooner). This action would be far and away the best thing Congress could do to encourage the expansion of the ethanol industry. We supported the Lugar/Daschle bill last year (s. 2503), and we still believe a renewable fuels requirement is the best way to provide some certainty in the ethanol market in order to provide investors and bankers with the security they need in order to invest in and finance new ethanol plants.
- 2. Extended Funding for the USDA / CCC Bioenergy Program:** This program has been a huge success. However, since it is funded only through September 30, 2002, it will not provide much support for ethanol plant projects that are only in the development stage, since it often takes over two years to raise money, secure financing and construct an ethanol plant. Extending funding for this program will encourage greater production of ethanol and biodiesel, which will help all of agriculture.
- 3. Extend the Small Ethanol Producer Tax Credit to the Members of Cooperatives and Adjust the Qualifying Plant Size to 60 Million Gallons or Less:** This is a fairness issue that has been left unresolved for too long. In addition to allowing farmer-owned cooperatives to pass the small ethanol producer tax credit on to their members (which is where they pass the tax liability to), the qualifying size of ethanol producers allowed to take advantage of this credit should be increased to 60 million gallons or less in order to allow more farmer-owned cooperatives, like Tall Corn Cooperative in Manning, Iowa, to take advantage of this program.

Many farmer-owned ethanol plants have or are expanding over 30 million gallons of production in order to stay economically efficient and to meet the demand for the product. In addition, many of the new farmer-owned plants under development are building 40 million gallon plants. In an industry where there are at least five ethanol plants that produce over 100 million gallons per year, a 40 million gallon ethanol plant, especially a stand-alone farmer-owned plant, does not consider itself a "large" ethanol producer and should not be categorized as one for the purpose of this program.

4. **Extend the Ethanol Tax Exemption Through 2015:** Ethanol's partial gasoline excise tax exemption extends through 2007. While that may seem a long way off, in the development cycle of an ethanol plant it is right around the corner. Farmers who are just beginning to look at a new ethanol plant project face a year of organizing, feasibility studies and fund raising. They then face a year of plant construction. That puts projects that are starting today into production in 2003 at the earliest. Under that best case scenario, that leaves them with only four years of production before the excise tax exemption is set to expire. On the other side of that issue, these plants are usually financed for 7 to 10 years. Bankers, investors and financiers will not look fondly on loaning millions of dollars to projects whose feasibility rests on something like a tax exemption that is set to expire in only a few years. There are many ethanol plant projects in Iowa that are just in the beginning stages, and this is one issue that will negatively affect their prospects if it is not resolved.
5. **Tax Credits for Investments in Value-Added Agricultural Processing:** One challenge that all farmer-owned ag processing ventures face is getting enough support and investment from farmers. There is a lot of risk with any new business, but encouraging farmers to invest in value-added agriculture processing is an important step in working to help farmers achieve more of their income from the market and less from the government. Helping farmers manage that risk by rewarding them with a tax credit based on their investments into value-added agricultural processing plants would help encourage more farmers to invest in farmer-owned ethanol plant projects, as well as all types of other ag processing ventures.

We believe that the new Farm Bill should be reflective of the changes in agricultural operations and the desire of farmers to see more emphasis on value-added ag processing and the linking of our agricultural and energy policy. We hope that these ideas are helpful and we appreciate their consideration.

HEARING ON AGRICULTURAL AND RURAL COMMUNITY ISSUES

SATURDAY, MARCH 24, 2001, SPENCER, IOWA

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 1:35 p.m., at The Hotel, Spencer, Iowa, Hon. Tom Harkin presiding.

Present or submitting a statement: Hon. Tom Harkin.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, RANKING MEMBER, COMMITTEE ON AGRICULTURAL, NUTRITION, AND FORESTRY

Senator HARKIN. Thank you all for coming here today. I guess I am supposed to gavel this thing to order or something like that. I really appreciate you being here. Can you hear in the back all right? If I do not see any heads nodding, I am going to be worried here in a second. Can you hear me in the back? Can you hear in the back? You cannot hear in the back. If you cannot hear, raise your hands.

[Laughter.]

Senator HARKIN. It is an old joke. I do not know what we are going to do if we do not have any loud speakers back there and you cannot hear. This is not acceptable. This goes back quite a ways. Do you suppose there is any way of getting any speakers back toward the back so people can hear? Because you have got both of them up here. I do not want to disrupt everything. We have got a limited amount of time.

Audience member. We are OK now. They have improved it a little bit.

Senator HARKIN. Somebody has turned it up a little bit?

Audience member. Yes.

Senator HARKIN. If you can hear me back there, raise your thumb, give me a thumbs up. OK. That is good enough.

Anyway, thank you for being here today. I guess all of us better just drive these things and speak into them so everybody can hear. We just had a great hearing, not quite this big. It was pretty big. I thought it was big, but this outdoes that. We just had one down in Lewis, Iowa at the Wallace Foundation Center. We had a great turnout down there and a lot of good suggestions, good testimony. We will do the same thing here. I am going to make a short opening statement and recognize some people. I am going to turn it to the panel, go down the list, ask them to make a short, concise summary of their statements. I might have a few questions and inter-

action. Then I would like to turn it open to the audience. We have a standing mic somewhere, I hope.

Back in the center someplace there's a mic that I cannot see back there. You have got a roving mic. OK. Good. Then I will just ask you since this is an official hearing, I am going to make sure you state your name for the reporter who is taking it down. If it is a difficult name like Smith, please spell it out, will you?

Let me recognize some people who are here, some public officials. Iowa State Senator Jack Kibbie is here. Jack, where are you? Senator Jack Kibbie is here.

Iowa State Representative Marcie Frevert is here.

Kossuth County Supervisor Don McGregor is here. Don, thank you for being here. Clay County Supervisor Joel Sorenson is here. Thank you for being here.

Clay County Supervisor Sylvia Schoer is here. Thank you for being here.

Our soil commissioner for Cherokee County, Tom Oswald, is here. Tom is here. Thank you for being here.

Buena Vista County Supervisor Jim Gustafson is here. Way back in back. All right, Jim.

We have Dick Drahota, rural development from Storm Lake. Thank you for being here, Dick. Gene Leners, treasurer of Palo Alto County. Gene is here someplace back there. Tom Grau who is deputy undersecretary of USDA. Where is Tom? Thank you for being here, Tom.

Did I miss anyone? Are there any public officials here that somehow slipped under the radar screen? I thank all of you for being here. If I did miss anyone, I sincerely apologize.

Today I am pleased to be holding two hearings of the U.S. Senate Committee on Agriculture, Nutrition, and Forestry, in Iowa. The testimony from our panelists and from the audience will become a part of the Committee's official hearing record. Your comments, ideas and recommendations will be a great help to my colleagues and me as we work to write new legislation and improve programs affecting agriculture and rural communities.

Again, let me introduce someone else to you just to make sure you know who everyone is here. My chief of staff on the Agriculture Committee is Mark Halverson right behind me. Many of you have worked with him in the past. Allison Fox is also on my Agriculture Committee and works mostly with conservation issues. Let us see. Where is Claire Bowman? Claire Bowman is also on my Ag Committee staff and is here today. Maureen Wilson, I want to make sure you know Maureen. She runs all of my Iowa offices out of Sioux City for western Iowa. Maureen is here. Right back there, Maureen Wilson.

Farm families and rural communities in Iowa and across our nation need some new directions. They have not shared in our nation's prosperity. That is clear. Although Freedom to Farm had its positive features, it had some serious shortcomings which are now obvious. We have to learn from experience and make the necessary improvements. We have to start by restoring a built-in, dependable system of farm income protection that does not require annual emergency appropriations.

We must also remember that farmers are the foremost stewards of our Nation's natural resources for future generations. We should strengthen our present conservation programs and adopt new ones to support both farm income and conservation. I have authored legislation to create a new, wholly voluntary program of incentive payments for conservation practices on land in agricultural production. That approach, improving both farm income and conservation, I think should be at the heart of the next Farm bill.

Now, to meet the challenges, the next Farm bill must address the broad range of farm and rural economic issues. We must do more to promote new income and marketing opportunities, whether that is through value-added processing cooperatives, creating new products through biotechnology, or developing a niche and direct marketing. I see tremendous potential for farm income, jobs and economic growth through clean, renewable energy from farms: Ethanol, biodiesel, biomass, wind power and even, on down the line, hydrogen for fuel cells. We must also ensure that agriculture markets are fair, open and competitive.

We cannot have a healthy rural America and rural communities unless both the farms and the small towns are doing well. We must do more in the next Farm bill to revitalize economies and improve the quality of life in our rural communities. That includes support for education, health care, telecommunications, water supplies, transportation, as well as access to investment capital for rural businesses.

That completes my opening statement. I also have a letter from Governor Tom Vilsack to be made part of the record. I will not read the whole thing. He said, I just encourage you to develop the next Farm bill to help farmers produce conservation commodities and improve their bottom line and renew the public commitment to agriculture. I just ask that that be made a part of the record in its entirety.

[The prepared statement of Governor Vilsack can be found in the appendix on page 108.]

Senator HARKIN. With that, again I welcome the panel, and I thank many of you for coming a great distance and for more than one time being witnesses for the Senate Agriculture Committee. Some of you have been there many times before. It has always been valuable input from all of you, and I appreciate you being here. We will just go down the line.

I will start with someone who whenever I mention his name in Washington, everybody knows immediately who I am talking about. He is Perhaps the foremost agriculture economist in the United States today. We are just proud to have him here in Iowa and at my alma mater, Iowa State. If the Iowa State women just do half as good against Vanderbilt tonight as Neil Harl has done in his lifetime, we will blow Vanderbilt away tonight. Neil Harl, thank you for being here.

[The prepared statement of Senator Harkin can be found in the appendix on page 154.]

**STATEMENT OF NEIL E. HARL, PROFESSOR OF ECONOMICS,
IOWA STATE UNIVERSITY**

Mr. HARL. Thank you, Senator. I appreciate the opportunity once again to be before the Senate Agriculture Committee, and I will try to keep my remarks brief. I am always reluctant to be critical of the handiwork of the U.S. Congress, but I want to—

Senator HARKIN. Why should you be different?

Mr. HARL [continuing.] Make it clear that I do think that the 1996 Farm bill has failed spectacularly. Let me just quickly mention why, and let me then follow that with some commentary as to what I think we might want to do.

The legislation was supposed to reduce government outlays and phaseout subsidies, and it has not done that. We have reached record levels this last Federal fiscal year, \$28 billion plus. I'll Return to that point in just a moment. It was supposed to produce increased exports. It has not done so. In fact, we have dropped about 18 percent. It was supposed to slow the land clearing process in South America. Instead more land entered production in Brazil and Argentina in the years since 1996 than in the 1990 to 1996 period. It was supposed to reduce distortions and economic decision-making. It has not. It has produced probably greater distortions than we had prior to 1996. One item, we are consistently producing commodities below the cost of production, distorting the cost of commodities as inputs to others. It was supposed to keep government out of agriculture, get government out of agriculture. Instead government is probably playing a greater role than ever.

Why did it fail? First of all, it substituted an adjustment model based on economic pain for a model of relatively painless adjustment. Farmers do not like economic pain and Congress does not either. At the first turn, when economic pain began to be obvious, farmers started receiving funds from Washington so that the adjustment process built into the bill really did not operate. I do not think politically it could operate. I do not think in an open, democratic system we can expect an adjustment model based on economic pain to work very well, and it has not. I remember in testimony both before the Senate and the House, on both sides of the aisle, in 1998 they showed great reluctance for economic pain to be the adjustment mechanism.

Export projections were quite unrealistic. We were told we were going to hit \$80 billion within a few short months, and it dropped instead. We forgot the lessons learned about 70 years ago that it takes a ton of money to replace lost income when you have inelastic demand. Once you let commodity prices fall, it takes an enormous amount of funding to replace that lost income.

Agriculture is the only sector expected to produce flat out. Deere does not. Intel does not. Boeing does not. No one else except for agriculture. It is vital we recognize that some of the voices active in debate in 1996 now profit from all-out production. Those who are involved in handling, shipping, storing, exporting and processing all like flat-out production. Farmers need to begin marching to a drummer they have bought and paid for, not a drummer bought and paid for by someone else. As an example, if Deere had been operating under Freedom to Farm principles for the last three years, there wouldn't have been enough parking lots to hold the

equipment. You could have bought a new tractor for less than my dad bought his first John Deere B in 1946 for \$1,365. Of course, Deere did not operate that way. They slowed down the assembly line and eventually shut it off when they were in overproduction.

What is the problem? In a word, it is production. Too much. Technology is marching us down the road faster than we can get it sold. If you think back over the last 70 years, what if we had had no technology in agriculture since 1930? What would corn be worth? A lot more than it is today. Would farmers be better off? Probably not. Because, as the world's best economic citizens, they would have long ago bid it into cash rents and bid it into land values. Land values would be a lot higher. There is an interesting link there.

We anticipate that at some point funds may not be there. Let me talk about our three options, Senator. The first option is we can go back to Congress year over year and ask for funds. As long as we can get funding, then we can limp by. Loans will stay current. Lenders will be happy. It still leaves trauma. No doubt about it.

What if we get an economic downturn? We are in the early stages probably of one now, although there is some difference of view. We may not have so much money sloshing around Washington as we have had in the last five years. Dealing with that second outcome is the second option.

Another possibility is we could encounter a shift in priorities. What I was hearing from the administration until just the last few days was maybe we should reassess funding for agriculture. I hope that is not the case.

Let us assume that we cannot get the funding and funding declines. What is likely to happen? We would see a decapitalization of land values because the evidence is clear. We have capitalized a very substantial part of our benefits into land values and into cash rents. We could see—with a cold turkey withdrawal of funding a 50 percent decline in land values. That is awesome. That destabilizes lenders. It destabilizes the entire rural community. It sucks a lot of equity out of the sector. I do not know of anyone in or out of Washington who wants to preside over that kind of an outcome. We are very vulnerable. We have become hooked on payments. That is a dangerous situation to be in. The farther we go, I fear the more the danger. Because we are building up larger and larger expenditures. The second option is one that would be very painful. If we can get the funding, which is No. 1, then start suffering a reduction, No. 2.

No. 3, begin a shift toward less dependence on subsidies and modest efforts in other directions. Let me mention, first of all, an emphasis on conservation. I commend you, Senator, for the conservation security program. That is one of the bright spots. I am supportive of CRP expansion. I would support 40 million acres. I would even support 45 million acres. That in conjunction with your program is an important part of this.

Second, I really believe firmly that we need to return authority to the secretary of agriculture that was swept away in the brief euphoria of 1996. I would specifically mention the farmer-owned commodity reserve. It worked better than we give it credit for. It could

work even better if it were fine-tuned. I do believe that is one important element in addition to emphasis on conservation.

No. 2 also, in terms of authority of the secretary, I think we need to have some modest effort, on a market-oriented basis, to begin to try deal with our oversupply in years when our weather is so very good, as it has been. There are a number of good proposals. I have reviewed a large number. I like the so-called flexible fallow program because it is market-oriented. It leaves the decision with the farmer. Each producer looks at their costs and bid in their land to a retirement program. It is likely to be more attractive in the periphery than it would be in the core area of production. That is what we should do rationally. I like that, and there are some other possibilities as well.

We should also focus on the structural transformation of agriculture. I have circulated today copies of a paper I am giving next Tuesday at a seminar at the National Press Club. I will have the pleasure, Senator, of introducing you at that event. We really need to look very closely in addition to the traditional side of farm policy to start thinking about this structural transformation of agriculture, what I call the deadly combination of concentration in input supply, output processing and output handling, coupled with vertical integration from the top down. I consider that to be a deadly, deadly, deadly situation.

We should do what is necessary to assure meaningful, competitive options for producers. For if you do not have meaningful, competitive options as a producer, you are going to get squeezed and you are going to end up being a serf. I do not use that term just to be inflammatory, but we have enough experience in the broiler industry to know where we are headed unless something is done. I would put a high priority on trying to maintain meaningful, competitive options. If you come to the end of a 5-year contract to produce hogs in Iowa and you do not like the replacement contract, you say, "I cannot live on that". Sorry. That is the best we are doing this year. You look around. If the nearest competitive option is 900 miles away and there is local dominance by the packer, then you know what is going to happen with the disparate bargaining power you have. I really would emphasize that.

Let me just mention one other thing and then I will close. Senator, I think we need to start thinking about a global food and agriculture policy. We are in roughly the stage we were about 70 years ago when we were arguing, is there a place for a national forum policy? We went through the 1920's, a painful decade. We argued, is there any role for the Federal Government? The decision was, no, there is not really a role for the Federal Government in forum policy. We since have decided there is, and we operate under that assumption today. We are about the same position in terms of a global policy.

Let me mention some of the components in a global food and agriculture policy. Leading the list is boosting Third World economic development. That is the last frontier for increasing food demand. The potential is awesome. I do not hear voices supporting Third World development where there could be a genuine increase in the demand for food as their incomes rise. There is almost universal support for that.

Second is food safety. We are probably going through the period of greatest concern in my lifetime about food safety. This should be a front burner topic as part of a global food and agriculture policy.

Food security is another one. We have not known hunger in our lifetime in this country, but that is not true elsewhere in the world. We need to assure people that there will be food security and that we will take the necessary steps. They still remember the 1973 embargo under the Nixon administration.

Equitable sharing of germ plasm is another possible feature of a global food and agriculture policy. There is a lot of worry about that, especially in the Third World countries and in the tropics. Trade obviously must be a part of a global food and agriculture policy.

Finally, inventory management. If we have to do something on the downside, then we should have commitments that they will do likewise. I do not believe, however, that what we do modestly on the downside has very much to do with South America. I honestly believe that there is no empirical evidence to support the assertion that modest efforts on the downside induce land clearing in Brazil. As said earlier, we have actually had more land entering production since 1996 in those countries than we had in the period 1990 to 1996.

I thank you for the opportunity to appear. I would be happy to take questions down the road. Thank you.

[The prepared statement of Mr. Harl can be found in the appendix on page 155.]

Senator HARKIN. Thank you very much, Dr. Harl. As usual, a very excellent statement.

Senator HARKIN. Next we turn to Joan Blundall who is the executive director of The Seasons Center for Community Health in Spencer. Joan.

STATEMENT OF JOAN BLUNDALL, EXECUTIVE DIRECTOR OF THE SEASONS CENTER FOR COMMUNITY MENTAL HEALTH

Ms. BLUNDALL. Thank you. I appreciate the opportunity to present testimony to you today. Frankly, if we had a farm bill that was working, I would not be at this table today. The things that I will report on are things that usually are not discussed in meetings relating to agricultural policy, but they are critical because what happens with agriculture policy ultimately comes back and impacts every farm and rural family in Iowa. I am not pleased to report that as executive director of Seasons Center for Community Mental Health in this corner of Iowa we have a 17.3 percent suicide rate which is six points higher than the national average as of a year ago. This year it will be even higher.

Senator HARKIN. Say that again How much was that, Joan?

Ms. BLUNDALL. 17.3. That is—and the national average is 11.2. Suicide is just another indicator of other underlying mental health problems. At Seasons Center for Community Mental Health every day we hear scenarios from families where the consequence that the way that we live in rural America is not working for families.

It was not too long ago that an honor student was referred by her school. At 17 she was suicidal, was unresponsive when the therapist asked questions until the therapist said, I hear your fa-

ther is a farmer. Then the girl broke down about how difficult things had been within the family for years. We were able to avoid hospitalization by giving sample drugs and counseling. The family had no ability to pay for their services, did not fit into any category for services. The farmer sold the family antique china cabinet to pay for services. I wish he had not paid for services.

We had a child this week at the age of 14 who was—who came in suicidal. The bills to take care of this child will be \$200 per week between medication, visits to the psychiatrist and therapy appointments. The family was ineligible for the State Medicaid program. They were \$12 over the limit for state-supported insurance program, and there is no mechanism to assist them. The family has decided to drop out of treatment and just seek services from the psychiatrist and get medication. This family unfortunately is in a situation where the choices that they have are either to give up the job in the grocery store, which is necessary income for the family, divorce or play Russian roulette with which part of medical care they can afford at the time. The categories we have to help farm families with different types of assistance are based on urban models. They do not fit the realities of our people.

We have had a 12 percent increase in service as well as a 25 percent increase in emergency calls. On average we have 140 emergency calls a month for a population base of 108,000 people. We class emergencies as a call where the individual is at risk to themselves or another person. The state hotline has also experienced an increase in mental health calls though they may not be classified as emergency calls.

The families who seek services at Seasons often seek them for problems of marital discord. What we found when the family comes in, the family is a healthy family, but one of the members is severely depressed. If we can treat the depression, the family can remain whole. Our greatest increase in services in the area is between 13- and 15-year-olds. Children are the symptom bearers. Mental health concerns that are not taken care of at this age will crop up later on. We are creating an inventory of expenses for the future related to human costs.

At a meeting just a week ago here in Spencer sponsored through a Federal program that I think is very effective we had well over 100 farm families attend. One of the things that is of major concern to me and something that I would not have predicted, in the survey that was given to the families we found that the major concern they had in one of the survey categories which was stress. I would have predicted that as being first. The second concern area for adults was mental health problems Farm families and rural people do not admit to mental health problems. It does not fit our culture. It does not fit with the realities that we have about stigmatization of care. This says to me that it is a red flag that we need more and more help. For children the health concern that was greatest had to do first with abuse, and second it had to do with lack of insurance or coverage for health care.

If we look at what we can do about the situation and even if we can create a farm policy that is going to lead us to the stability that Dr. Harl talked about, we have a period of time where folks are hurting that are going to call for immediate attention. One of

the things that we have to consider is what the consequences have been of not having cost-based reimbursement for mental health services as is done in rural health clinics. We have almost been crippled—and I say almost because we will not be crippled—in our response to the needs of our rural families in this part of Iowa. We have almost been crippled because of the adjustments that we have had to make because of the inadequate financial support for Medicare and Medicaid population. In a 14 county area we can document that we had to make \$467,158.14 worth of adjustments because income from Medicaid and Medicare and the waiver program were inadequate. We would have been able to serve everyone who had a problem and do a lot of prevention if the basis was there.

Second, I think that some of the requirements that are necessary regarding having physicians present in a clinic create barriers to access to care. We are in a health shortage area. We do not have those professionals there, and, therefore, we can get severe waiting periods. Tax relief and loan repayment for physicians who go through the national service corps can be helpful. We do not have enough psychiatrists and mental health professionals in the state of Iowa to assist with the needs that are coming. Rural health network grants and outreach grants have been a lifeblood in our being able to respond even though we do not have resources. I hope that continuation of these programs is something that can be worked toward. We need that kind of basis if we are going to be able to respond to the emergent needs that are coming now.

Thank you very much.

[The prepared statement of Ms. Blundall can be found in the appendix on page 175.]

Senator HARKIN. Thank you very much, Joan, for an excellent statement and rundown on what's happening here.

Senator HARKIN. Now we have Don Mason, president-elect of the Iowa Corn Growers Association. Don.

STATEMENT OF DON MASON, PRESIDENT-ELECT OF THE IOWA CORN GROWERS ASSOCIATION

Mr. MASON. Good afternoon. Thank you, Mr. Chairman, for offering my organization this opportunity to testify in front of your committee to present our views on the direction of American farm policy. Again, my name is Don Mason. As you well know, I farm about 800 acres of corn and soybeans about 45 minutes south of here in the little town of Nemaha. In my spare time my partner and I also raise about 5 to 6,000 head of hogs per year. I am the president-elect of the Iowa Corn Growers Association, a farm organization that represents over 6,000 growers in Iowa. I am a former Peace Corps volunteer. I worked for four years in South America and have seen a good share of the world. When I came back to Iowa—as soon as I got back to Iowa, I seized the opportunity to get my hands into the Iowa soil and work the soil. It is my goal in the position that I am to make sure the young men and women in Iowa, my potential replacements, if you will, have the same opportunity to get their hands into Iowa soil and work the land.

I am reminded of a comment I heard some time ago with regard to farm policy that I think is very applicable in this situation. A former secretary of agriculture asked a group of farmers what di-

rection they hoped Congress would go with the Farm bill. A farmer stood up and said, Mr. Secretary, I would like you folks to work together to create a farm bill that will allow me to thrive rather than just survive. That is very aptly put, Senator Harkin. I would sure like to see a program that encourages Iowa's farmers to thrive, not just to survive.

I believe that the process that you, Chairman Harkin, and your counterparts in the House have laid out and have embarked on will bring all commodity groups to the table to have some fruitful and honest discussions of where we go next.

Last year U.S. farmers experienced the lowest corn prices in more than a decade, the lowest wheat prices in 8 years, the lowest soybean prices in nearly 30 years, and the steepest decline in milk prices in history. Just two and a half years ago as a pork producer, I saw the lowest hog prices since the depression years.

Why is the farm economy in crisis? Can you lay the blame entirely on the Federal Agriculture Improvement Act and Reform of 1996? Probably not. In large part the crisis is being fueled by four consecutive years of record global grain production and combined with a weak export demand, both of which are beyond the scope of the 1996 Act. U.S. ag exports are projected to be lower again this fiscal year after reaching a record high of nearly 60 billion in fiscal year 1996. Large global production, the Asian and Russian economic crises, and a strengthening dollar have all contributed to a weakening of those exports.

We do support some of the underlying principles of the 1996 Farm bill. We like the ability to plant what we choose and what the market demands, to let the market help us make decisions on the farm rather than Washington bureaucrats.

A more appropriate question is: Is the 1996 act doing or is it capable of doing all that farm policy could and should do to help deal with the problems we face now and to help with recovery? Clearly the answer to that is no.

Now, I will not delineate all of the supplemental emergency titles that Congress has had to enact since passage of the 1996 bill except to comment on a fundamental shift that we find quite troubling, and that is the amount of our net farm income that comes directly from the government. Dr. Harl has already alluded to this. Our chart, shows very graphically the amount of government assistance as a percentage of U.S. net farm income. It has risen dramatically over the last four years. If you talk to most farmers, certainly not just corn growers, they will tell you that we would rather make our income from the market and not from the government.

Having said that, I would like to quickly summarize our vision for agricultural policy. Our discussion of farm policy is guided by eight fundamental principles: First, that agricultural policy should not artificially impact land values and stimulate overproduction around the world.

The Federal Government should not and cannot guarantee a profit, but it should help producers manage risk.

Ag policy should continue and expand environmental programs such as CRP. Payments for conservation practices should be fully supported and liberally funded.

Policies should promote value-added processing of commodities—example, ethanol production, which we have got quite a bit of going on in Iowa, particularly where the value-added is captured by farmers. Just an aside here, I would mention that in efforts to promote value-added projects by farmers we have to be careful not to penalize farmers because the value-added enterprise that they develop happens to have the wrong legal structure or happens to be a few million gallons of ethanol too big or something like that. Let us be careful in developing programs.

Policies should retain the planting flexible of Freedom to Farm.

Policies should make a commitment to reducing trade barriers and sanctions. As the Senator well knows, I have spent some time lobbying for improved relationships with Cuba and trading relations with Cuba and so on. We made some ground, headway last year. I would say that we have got to remain vigilant so that the intent of that legislation is carried out and that we do not slam that door shut again.

Policies should be directed to improving our infrastructure such as upgrading the lock and dam system on the Mississippi River.

Finally, policies should support research, development and marketing programs for commodities.

After weighing all of these needs and concerns including addressing the need for a safety net to deal with price downturns and disasters, we also believe that an integral component of the new Farm bill should be some kind of a system of counter-cyclical payments. Our group is currently considering a proposal to create such a payment, and we are hopeful that our national president will be able to present the National Corn Growers Association's findings on this proposal to the House Ag Committee and, of course, to this committee as well by the end of April. We have noted with great interest a lot of proposals out there, and we look forward to presenting a very novel approach to counter-cyclical payments in the very near future.

The Iowa Corn Growers Association believes that any reform initiatives should promote conservation. We also see considerable promise in the Conservation Security Act. We think it is a great effort. We are committed to the voluntary nature of conservation programs, and we applaud your efforts to reward producers for the conservation practices that they have undertaken or intend to undertake on their own initiative.

In trade policy we also believe that we should continue our efforts to eliminate trade barriers, to honor our commitments to WTO negotiations. Therefore, we oppose policies that would continue to directly interfere with our WTO obligations and stimulate overproduction.

In conclusion, given various proposals presented by farm organizations to address the problems of the farm economy, we understand that it is going to be a little bit difficult and it is going to be quite a job to reach consensus on a farm bill. I remain hopeful that we can do that. To paraphrase Robert Frost, we have miles to go before we sleep. I am also hopeful that a farm bill process continues to be conducted in such a way as to promote a very thoughtful dialog about where we need to go next.

Senator Harkin, I look forward to working with you to define proposals in a farm bill that will help Iowa's farmers to thrive and not just survive. I commend your work on this committee, and I appreciate this opportunity to express the Iowa Corn Growers Association's views. I will be happy to answer any questions that you might have.

[The prepared statement of Mr. Mason can be found in the appendix on page 178.]

Senator HARKIN. Don, thank you very much for a very strong and forthright statement. I appreciate it very much.

Senator HARKIN. Next we turn to Mark Hamilton with Positively Iowa. Mark is also the publisher of the Times-Citizens newspapers of Iowa Falls, Iowa, and he is secretary/treasurer of Positively Iowa.

STATEMENT OF MARK HAMILTON, POSITIVELY IOWA

Mr. HAMILTON. Thank you, Senator. It is an honor to be here today. I want to discuss a serious threat to agriculture's future and to Iowa's future that goes well beyond farming.

Rural Iowa as a whole is dying. There is a relentless geographic cleansing that is going on in more than half of Iowa that not only threatens the existence of communities, but also endangers Iowa cities and farming as an industry.

Demographic trends tell us that mathematically the rural Iowa population base cannot sustain itself.

The farming industry and Iowa cities seriously underestimate the damage to their interests if rural communities are allowed to decline. In agriculture, where off-farm income is becoming a more necessary component to financial success, rural nonagricultural jobs are becoming fewer and further from the farm. Cities, which sometimes view rural communities as unworthy competitors for development resources, fail to recognize the traditional source of over half of their growing labor needs.

Clearly, the demographics of the existing indigenous rural population dictate depopulation. A resettling of rural Iowa must occur. The question is under what set of policies and goals will that resettlement take place. The current policy record has produced a low-skill, low-wage resettlement result—jobs our own state college graduates do not find acceptable. Different initiatives can drive a more attractive and more acceptable route to resettlement.

I have four suggestions I would like to briefly bring to your attention.

No. 1, we need a support system for competent professional developers at the local level.

I submit that the National Main Street and Main Street Iowa model has been, by far, the most effective program for rural Iowa communities that I have seen in the last 20 years. It saved downtown Iowa Falls and has saved many other Iowa downtowns as well.

The model requires local financial and human commitment and leverages that with State and Federal training, expertise and matching financial support. It also requires the local communities to follow tested development models if they want to participate. I

suggest you look to that model in the area of rural economic development.

No. 2, when we talk about rural problems, we often hear about rural poverty. What is more crucial to this discussion is the staggering level of rural wealth. Sixty percent of Iowa farm land is debt-free. That translates to \$35 billion in unencumbered assets. There must be incentives to move just a small portion of those assets into a pooled, risk-shared system to resettle rural Iowa with good high-skilled jobs. You need financial and tax experts to take a look at this. I am certainly no expert. Local banks are required to invest locally through the Community Reinvestment Act. Why not farmers as well?

We offer farmers incentives to treat their land in the public interest. Why not expand that concept to the use of their government-created wealth for the greater public good?

No. 3, one of the most difficult hurdles for local communities is to overcome the 150-year-old definition of community boundaries that were made for a horse and buggy economy. The state of Iowa and its neighboring states may suffer in much the same way. Regional coordination of state and Federal laws and regulations could be improved among the north central states in a number of areas. A joint effort among neighboring states pointing to a reduction of jurisdictional barriers would be productive and worthwhile for rural revitalization. We ask communities to look beyond their boundaries for improved alliances and economies of scale. The states in the region should do the same thing.

Northern Great Plains, Incorporated, a five-state regional non-profit rural development organization, which I believe, Senator Harkin, you were instrumental in creating back in 1994, is bringing out recommendations on such a project next week I think it will be worthy of serious Congressional consideration.

No. 4, how do you coordinate a sensible, efficient approach to resettlement of rural Iowa? This is where I think real, effective, affordable progress can be made immediately. Our organization, Positively Iowa, has led a private sector, grass-roots issue development process for the last 6 years.

Our single goal now is the creation of a Center for Community Vitality for Iowa. The Iowa 2010 Strategic Planning Council proposed this idea. Iowa State University Extension and the College of Agriculture have endorsed the concept. The center can be modeled after the Leopold Center for Sustainable Agriculture. It would be unique in that rural leadership that is actually working in the rural development trenches will guide it in concert with existing academic and development organizations.

I am suggesting a decision making body that might be called the Rural Regents. It could direct and coordinate rural research and communication and really offer rural areas the information and resources needed to make better decisions as they chart their own routes to diversification beyond agriculture.

This center could lead research, dialog and deployment of resources to make better and more coordinated decisions. I believe an appropriation of no more than \$1,000,000 could establish this center. The Iowa legislature is currently considering a resolution of

support. I hope you will give this final recommendation your careful consideration.

The job of bringing back rural Iowa gets harder with each passing day. The Center for Community Vitality is an idea whose time has come today. Thank you for your consideration.

[The prepared statement of Mr. Hamilton can be found in the appendix on page 182.]

Senator HARKIN. Well, Mark, thank you very much. That was excellent. We will get back to that. I have got some questions for you on this one.

Senator HARKIN. Next we will go to Duane Sand, who is with the Iowa Natural Heritage Foundation of Des Moines.

**STATEMENT OF DUANE SAND, IOWA NATURAL HERITAGE
FOUNDATION OF DES MOINES**

Mr. SAND. Thank you, Senator Harkin, especially for this invitation to speak about conservation needs and farm policy. We are grateful for your long history of conservation leadership, Senator. We hope the Ag Committee will work with you to better balance conservation programs and farm subsidies in the next Farm bill. We ask the committee to address both needs in the same bill.

Last fiscal year Federal farm support payments were about ten times greater than USDA conservation payments. Farm subsidies enable the cultivation of some highly erodible lands, flood plains and grasslands that would not be cultivated in the absence of subsidies. Congress and USDA should do more to prevent and mitigate subsidized environmental degradation.

We strongly endorse the Conservation Security Act as a means to help balance conservation and farm support. Senator, your sponsorship, leadership and staff support for the Conservation Security Act is greatly appreciated.

Farmers and taxpayers can get more benefit from farm policy if CSA is enacted. The 1996 Farm bill did little to correct unsustainable farmland uses. Billions of dollars in production subsidies only encourages more cheap grain. CSA can help farmers transition to sustainable land uses and conservation practices. Farm policy can buy soil, water, air and wildlife benefits in addition to food security.

We think CSA has three major improvements for farmers. First, the public pays more of the farmers' cost of providing conservation benefits. Too many farmers cannot afford to do conservation. The public should pay a hundred percent of real costs of many practices.

Second, it can apply to all agricultural lands. Stewards of the land are eligible, and a history of environmental abuse is not needed to make the land eligible for incentives.

Third, it is readily available and well funded. Conservation payments will become as accessible and dependable as farm subsidy payments.

We also think CSA has four major advantages over current farm policy. First, conservation payments are not considered distorting of free trade and are not subject to the subsidy limits set by World Trade Organization.

Second, more producers will voluntarily sign up, thus agreeing to the conservation compliance requirements for wetlands and highly erodible lands. By the way, Senator, we especially appreciate your efforts to strengthen conservation compliance and Swampbuster by restoring the ties to crop insurance and revenue assurance. Senate support is even more important now because of the recent Supreme Court ruling on Section 404 wetland regulations.

Third, there will be more urban support for farm programs because CSA will benefit the environment in large parts of the Nation that historically have not participated in farm subsidies.

Fourth, CSA is a legitimate alternative to the Freedom to Farm promise that farmers would transition to market prices and farm subsidies would end in 2002.

CSA is a sustainable agriculture transition program that can provide help if Congress no longer supports market transition payments.

I will take a couple minutes to give an example what CSA can do for Iowa. The map on display is the watershed for the Iowa Great Lakes complex. This 62,000-acre watershed which is partially in Minnesota provides drinking water for several thousand residents, provides recreation for roughly one million visitors annually. This area has growing small communities because of high quality natural resources. It shows that water quality contributes to rural development because people move to attractive recreation areas.

Agricultural runoff is a great concern to local citizens and their water utility managers. Sediment, phosphorous, pesticides, and microbiological contaminant problems require much more work for water protection. Best management practices and wetland restorations to filter farm pollutants are greatly needed to prevent lake pollution.

Phase one incentives under CSA would greatly expand nutrient management, manure management, integrated pest management, and conservation tillage practices on the 37,000 acres of cropland in the watershed, which is gold in color on that map.

Phase two incentives would help adjust land use on targeted soils. It would pay for buffer strips, cover crops, conservation crop rotation, establishment of pastureland, or for the restoration of wetland prairie or other wildlife habitat. The small dark blue spots and lines are areas that deserve those kinds of land use changes in order to protect the lakes which are the large blue areas.

Phase three incentives would help pay for on-farm research, demonstration, and establishment of whole farm conservation systems. Such systems might include organic farming transitions, the building of soil quality through carbon sequestration, better manure management using alternative livestock systems, the control of invasive exotic species that affect wetlands or natural areas, and the comprehensive pollution prevention for farmsteads and feedlots.

Farm conservation programs are now used in the watershed, but progress is still too slow. The Conservation Reserve Program, the Wetland Reserve Program, the Environmental Quality Incentive Program each make important contributions to this watershed and deserve much greater Federal support. However, a Conservation

Security Act is needed to supplement these efforts. CSA creates the means for serious planning and serious funding to support sustainable systems on working farms.

We urge the Senate Ag Committee to authorize CSA to enable major new spending for the conservation of America's natural resources.

Thank you for the chance to comment.

[The prepared statement of Mr. Sand can be found in the appendix on page 193.]

Senator HARKIN. Duane, thank you very much for giving me a good rundown on the CSA. That is pretty good.

Senator HARKIN. Now we turn to Phil Sundblad with the Iowa Farm Bureau Federation from Albert City, Iowa. Phil.

STATEMENT OF PHIL SUNDBLAD, IOWA FARM BUREAU FEDERATION

Mr. SUNDBLAD. Thank you, Senator Harkin. As you said, my name is Phil Sundblad. I live near Albert City with my wife, Brenda, and our two children. I farm with my father. We have about a thousand acres of corn and soybeans. I appreciate the opportunity to be here today on behalf of 155,000—plus members of the Iowa Farm Bureau.

Farm Bureau members from across the country debated the future of farm policy at our annual meeting in January. Based on that debate Farm Bureau supports maintaining the basic concepts of the 1996 FAIR Act including direct payment program and planting flexibility. In addition, we are seeking an additional \$12 billion to accomplish our goals within the farm program of an improved safety net, expanded conservation programs and more funding for trade promotion activities.

We are very concerned about the approach taken by the House Budget Committee to provide this funding. The budget resolution provides for additional money for farm program, but makes it available contingent on passage of the Farm bill by July 11. The next Farm bill will have long-term implications for the future economic health of agriculture as well as our rural communities. Good policy takes time to develop. If this trigger is maintained in the budgeting process, it is likely that only the commodity titles will be addressed.

The Farm bill is about more than program crops. It is about trade, conservation, rural economic development, risk management and credit. The program crops comprise only 22 percent of the gross cash receipts in agriculture. A farm bill that addresses only those program commodities ignores the majority of agriculture. We cannot support this approach. We urge the Senate to provide this funding without a contingency to ensure adequate time for debate on a farm bill that includes all titles, not just commodity titles.

Farm Bureau's proposal for the next Farm bill includes these components: The next Farm bill should be WTO compliant. Our participation in the World Trade Organization's agreement on agriculture is critical to allow our producers access to foreign markets. Ninety six percent of the world's consumers live outside the United States. We cannot afford to shut the door on those markets.

We support continuation of a direct payment program based on current payment rates and base and yield calculations. We ask that oilseeds be added as a program crop, making permanent the assistance that Congress has provided over the past 2 years for oilseed producers.

Rebalancing loan rates to be in historical alignment with the soybean loan rate. In addition, we support flexibility in the loan deficiency payment program to improve its usefulness to producers as a marketing tool.

Implement a counter-cyclical income assistance program to provide an additional safety net feature for producers.

Conservation programs should be expanded in the Farm bill. Producers are facing increased pressures from Federal regulatory programs such as the EPA's animal feeding operation rules, water quality standards and total maximum daily loads. Voluntary, incentive-based conservation programs are proven to work, but these programs have been significantly underfunded and targeted primarily to row crop producers. We support an additional \$3 billion investment in conservation programs to expand the Environmental Quality Incentives Program and to establish an environmental incentives program similar to the Conservation Security Act which you proposed, Senator Harkin.

Congress should increase funding for trade programs including market access development and Foreign Market Development co-operator program. Removing barriers to trade is only the first step. We must then convince the consumers in those countries to buy American agricultural commodities. In addition, we must fully utilize the Export Enhancement Program and the Dairy Export Enhancement Program to the fullest extent allowable under the WTO agreement. We are unilaterally disarming ourselves against our competitors if we do not use these programs.

In conclusion, farmers look forward to working with you and the Senate Agriculture Committee as we develop a new Federal farm program. I believe we have proposals that take the best features of the 1996 FAIR Act and combine them with some additional income safety net protection and expanded conservation and trade programs to help agriculture share in the economic success that this country has felt over the last several years.

We cannot design a successful farm program isolated from other policy considerations. Congress must recognize that farm policy is about more than just the program crops. Our success or failure on the farm is dependent on many factors including market exports, Federal monetary policy, corporate mergers and acquisitions, tax and regulatory policies and transportation to name a few.

Thank you for the opportunity to testify today before the Senate Agriculture Committee.

[The prepared statement of Mr. Sundblad can be found in the appendix on page 195.]

Senator HARKIN. Phil, thank you again. Thank you very much for a very good statement, Phil.

Senator HARKIN. Thank you all. These were good, concise, straightforward testimonies. I am going to do a quick run-through to make sure that I heard you clearly. Then we will try to open it up for some questions.

Basically to recap, Dr. Harl said that he felt that the bill had failed. Last year there was over \$28 billion in subsidies and no increase in exports, which were in fact, down 18 percent. The land clearing process in South America did not stop. In fact, we have even greater distortions and more production now. It did not help in getting government out of agriculture. He asked the question why. Because Congress does not like economic pain. Boy, is that a truism. We forgot the lessons that as income falls, it takes a ton of money to replace it. He basically said that the essence of it is that overproduction is the problem. Technology is increasing at a rapid pace

Dr. Harl, basically you said that we had three options. First, just to keep up the annual payments, just keep them going and get by. You also raise the question, what if we have an economic downturn? Is Congress just going to give us the money?

Second, a reduction of payments. Then you point out what that might do to land values if we do that.

The third was a shift to less dependence on direct subsidies and a shift to something else.

You mentioned the CSA, raising the CRP perhaps to 40 or 45 million acres which was in the initial legislation we passed in 1985. You said the authority of the secretary of agriculture to do other things like the Farm Loan Reserve. It needed to be fine-tuned. To deal with oversupply you mentioned the flexible fallow program and some structural changes might be needed in terms of concentration of the inputs and the output end along with vertical integration. You were suggesting by that that ought to be something that we look at in the Farm bill. We need to basically have meaningful, competitive options for farmers. You mentioned that we should to now be thinking of a global food and agricultural policy rather than just a national one. You mentioned some of the elements that that would entail.

Joan Blundall reminded us all of what happens to policies that we enact. It has human dimensions to it. Things happen as a result of these. It was quite shocking to learn that the suicide rate is 17.3 percent and that is just in this area, I assume, in your area, which is well over the national rate. She related some stories of families under stress selling their family heirlooms to pay for health bills. That we have a problem in that—and I have to look at this—that a lot of our assistance is based on urban models and is not applicable to rural areas. I will take a look at that, and I need some more information on that. Just the lack of insurance for health care that we have in rural America and the need for mental health professionals in rural America and that we just do not have them. We need more rural health outreach grants.

Don Mason with the Iowa Corn Growers, you basically said that we need a policy that makes us thrive and not just survive. That is good. He talked about getting all the groups to the table. Again, Mr. Mason went through the lowest corn prices in a decade, wheat in eight years, soybeans in 30 years, and milk. Four years of record production globally and the strengthening of the dollar. Saying that there is a lot of dimensions to why we are in this problem.

Mr. Mason said he liked the flexibility of the 1996 Act to make their own decisions, but the amount of net income from farming is

disturbing. He had the chart to show that. Basically Mr. Mason said that in the policy—and I wrote these down as fast as I could, we should not inflate land values artificially. We should not guarantee a profit. We should expand environmental programs. He mentioned the CRP. We should do more to promote value-added products, retain the flexibility of the Farm bill, reduce trade barriers and sanctions and mentioned research programs and the river problems that we have with our locks and dams on the Mississippi. You also mentioned that we need a counter-cyclical payment. You said that the Corn Growers would be presenting this to us by the end of April. I look forward to a novel approach as you said. I am looking forward to that. Then also mentioned the Conservation Security Act in promoting conservation.

Mark Hamilton with Positively Iowa talked about rural Iowa dying and resettling must occur. How do we do that? What policies? He had four suggestions. To support a system for local developers. He mentioned National Main Street and Main Street Iowa. Something that I had not thought about, he talked about the rural wealth that we have. We always talk about the problems, but we have \$35 billion in land that is debt-free in Iowa. Then you talked about incentives for people that have this wealth to invest in rural Iowa. I would like to examine that more. That is an interesting, provocative idea. I do not know how we do it, but that is a lot of assets.

Third, he mentioned that 150 year old definition of community boundaries and mentioned the Great Plains Initiative that we started. The Great Plains was to try to start breaking down some of the those old, artificial boundaries. Last you said, how do we coordinate this resettlement? Talked about creating a Center for Community Vitality, requesting a million dollars to establish the center. I understand that the Iowa legislature, you say, is also looking in to assist in this, as I understand it.

Mr. HAMILTON. Although they are not considering funding at this point because of the states—they are right now considering endorsement of the concept and hoping that funding will come from elsewhere.

Senator HARKIN. Like us?

Mr. HAMILTON. Yes.

Senator HARKIN. All right. I understand that. I got that picture. Duane Sand talked about that Federal payments were ten times greater than our conservation. In fact, I have a little chart which I am sure all of you can see quite well. All this shows is that the CC outlays for last year, \$32.2 billion total and only 1.74 billion for conservation. You said ten times. More than 10 times. Fifteen maybe, sixteen times.

Mr. SAND. I included some conservation operations, some personnel in my figure. That is all.

Senator HARKIN. This is just CCC outlays. You can see it is quite distorted. He mentioned the need to balance conservation and commodity needs in the Farm bill. Strong endorsement of the CSA and the fact—he gave a good description of what CSA would do, that there would be three major improvements. The public would pay more for conservation; it would apply to all ag land; and it would be readily available. He mentioned how it would be within the

green box of the WTO, voluntary. Would help us get more urban support and mentioned those aspects and then had an example of how it might work in the Great Lakes complex here and ran through the three levels that we have in the CSA, the three different levels of participation.

Phil Sundblad with the Iowa Farm Bureau mentioned that the National Farm Bureau wanted to continue the direct payment program and flexibility in any new bill. There was a concern about the House Budget Committee that said we had to have a farm bill by July 11. He said that was not time enough. I can assure you that is not time enough, Phil. He went on to say that the Farm bill is broader than just a commodity program. We have to think about trade and conservation and rural economic development, risk management and credit within a farm bill. He said there were six things we had to keep in mind in a farm bill. It should be WTO compliant. We need a direct payment program, and you said we should include oilseeds with that. We have to rebalance the loan rates to get them more in line again with the soybean rate. There should be a counter-cyclical program. Conservation programs need to be expanded. You say they are underfunded. You mentioned the need for \$3 billion for the EQIP program, for example, and then talked about the Conservation Security Act. Then mentioned the need for funding for the Market Assistance Program, for the Foreign Market Development Program and the EEP, the Export Enhancement Program, that we need. He said keep the best features of the 1996 Act and combine with the above recommendations for a new farm bill. Again closed by saying that the farm policy is about more than just program crops.

Again, all great testimony, and I appreciate it very much. What I would like to do is just ask a couple of questions. Then I am going to open it to the audience for suggestions and comments.

First I want ask to Dr. Neil Harl and the rest of you, I heard some talk this morning about CRP. Now, again you mentioned—in the 1985 Farm bill when we first started the CRP program, we authorized 40 million acres. Then that was cut back to 36 million acres. We got about 34 million acres in right now. Now, I have been getting a lot of input from a lot of sectors, wildlife, sportsmen, people like that, others and some farm groups and others saying we need to expand the CRP program to 40 to 45 million acres. Now, I heard this morning from some people saying that, well, that would not be wise because what about the availability of land for young farmers, that this bids up the rental value. If there are young farmers who want to farm, this hurts them especially, I guess, in southern Iowa where I was this morning. I do not know about this area. I just wonder if you have any thoughts about that and how careful we have got to be and how concerned we have to be about that aspect.

Mr. HARL. I am very sensitive to the plight of the young farmer, and I think we should continue to be sensitive. However, as I was saying, if we have income, it is going to get capitalized into land values. The more income we have, the higher land values are going to be because farmers bid it in every time. They always have. The only way you can keep land values low is to (a) reduce government payments or (b) shrink margins even more which would be exceed-

ingly difficult to do because there is very little to capitalize in land values right now. While I am very sensitive to it, I really think that that should not be a determining factor here. We are dealing with trying to boost farm income. That will necessarily provide some buoyancy in land values.

Senator HARKIN. If farm payment programs were geared more to the producer and production practices of that producer rather than tied to a commodity, would that be a divorce that we might want to look at in terms of worth of land values?

Mr. HARL. It would be a separation. I am not sure it would be a divorce, if you can permit me that distinction.

Senator HARKIN. OK.

Mr. HARL. The problem we have is this: Let us say that we have a program in place that targets the more erosive land, the marginal land as CRP does, and we double the payments on those for practices. You have to use those practices on that highly erosive type land. On the other hand, let us say we reduce payments on the best land that has no erosive capability. What will we see? We will see the value of the best land fall. We will see the value of the erosive land rise

Senator HARKIN. That is right.

Mr. HARL. That even though we separate those, as long as it is tied to land, to a specific type of land, it is going to have the same effect basically. It is going to get capitalized into those values. You will find people bidding up. We saw that with the CRP. In southern Iowa where I am from in some of our counties down there, Decatur, Wayne, Appanoose, and Davis, actually that program raised the bottom end of the land values because there was an assurance of income.

Now, there is one other argument that I think is a potent one. That is, it hurts input suppliers. There is no question about that. You do not sell machinery. You do not sell fertilizer. You do not sell chemicals.

Senator HARKIN. That is right.

Mr. HARL. Those areas are hurting anyway. They are going to hurt no matter what. What we are dealing with here is the potential over the next several years of seeing what I call the core of production for corn and soybeans actually shrink because we are not able to sell our products as rapidly as we are increasing yields. If you look at the current yields that are being reported by some of the contest participants like Mr. Childs from Delaware County, we know that it is possible, physically, to produce over 400 bushels to the acre.

Senator HARKIN. That is right.

Mr. HARL. Everybody will slowly march in that direction. Unless we can increase the demand for corn at that rate, we are going to see a shrinkage of the cornbelt. What we need to do is be sure we have in place programs to encourage the idling peripheral land. That is the most rational economically, to encourage the peripheral land to shift. That is what Freedom to Farm would have done had we stayed the course, but nobody likes that because it squeezes everybody. In the process of squeezing the peripheral people enough that they go out of business or shift to another crop, it squeezes even those on the best soils. No one likes that. We have to take that les-

son, I think, and see if we cannot encourage that land to shift. Especially where it is erosive I think the CRP program is a very good program. It has proved that since 1986 when the first bidding occurred.

Senator HARKIN. Any thoughts on this, Don?

Mr. MASON. I was going to just make one quick comment. That is that one of the great attractions to CSA is the fact that it does make that separation between the land and the payment and apply it more to a practice. Not only that, but as I understand the provisions of CSA, it would be available to folks in prime farm country as well as marginal areas. It would be less likely to cause that distortion there between those areas.

Senator HARKIN. Thank you for mentioning that. Thank you for telling me about my own bill. I forgot that. Because he is right. Don is right, there are also other things in CSA, like water quality, for example, that is taken into account rather than just erosion.

Mr. HARL. Relatively speaking would an owner of relatively flat Clarion-Webster silt loam be getting as much or be eligible for as much relative to what they are now getting? Would those who have the erosive land probably be eligible for more than they are presently getting? I would say that is probably the case.

Senator HARKIN. That is probably the case. That is true. It still would be open.

Mr. HARL. It would have to be attractive to the people who have the best land who do not have the erosion problem, typically. They have other problems, runoff, nonpoint source, all kinds of other things. It is a question of the detail. As the old saying goes, the devil is in the details.

Senator HARKIN. I can see someone on that kind of flat land that might say, "Gee, they would like to put in some buffer strips, maybe even a few windbreaks". Pretty the countryside up a little bit. Just for things like that that just might help and that they get a nice payment for those practices that they are engaging in. Then they might want to say, "Well"—on tier one there are still farmers on that kind of soil that are not doing conservation tillage.

Mr. HARL. It is true.

Senator HARKIN. They could do that. That is tier one there. They get in that tier one.

Mr. HARL. It is a question of the attractiveness, the feasibility and the attractiveness to the individual as a practical matter.

Senator HARKIN. That is true. That is true.

Mr. HARL. I am not saying—

Senator HARKIN [continuing.] There will be some who will say to heck with it. I know that. It is Better to go the voluntary route and to get people to think about it. Hopefully they will be more community-minded and they will think about it. These payment levels would cover more than their cost of complying or doing that, at least in the first tier anyway.

Well, rental rates. If we do get set asides or flex fallow, do we need to be concerned about the impacts on feed costs and livestock industry? I am constantly reminded by my cattlemen and my pork producers that do not forget about us. It is not just a commodities program.

Mr. HARL. The answer to that is clearly yes. It would increase the cost of feed. Cost of feed is now below cost of production, so we have a distortion occurring. Generally the livestock industry will adjust. If you have cheap grain, that normally leads eventually to cheap livestock. The livestock industry can adjust to slightly higher feed prices. What they find difficult is great volatility in feed price. I would agree that it would raise the price of feed, I think fairly modestly, but it would raise the price of feed compared to the ultra-low levels existing now. There probably would not be any \$1.30 or \$1.40 cent corn, for example, if you had some buoyancy built in there with some provisions to reduce supply. What we are after is to try to get those prices up.

Senator HARKIN. You are arguing for a balance.

Mr. HARL. That is right. Exactly.

Senator HARKIN. Arguing for a balance. What should we do about South American land, anybody, coming into production? does anyone have any thoughts about that? We have looked at the same data, and we see the same thing. It just comes into production. I do not know what we do about it.

Mr. HARL. Senator, there is a book out, a very good book, published by Iowa State University Press 1999 by Philip Warnken, *The Growth and Development of the Soybean Industry in Brazil*. It cites the reasons why that country essentially forced the development of the soybean industry. I have pulled out from the book several factors that were involved. No. 1 was the embargo of 1973 that sent a clear message around the world, including Brazil, that we are not a dependable supplier. That was a niche for them. No. 2, we supplied them with varieties of soybeans that were appropriate for their climate. No. 3, we trained plant breeders. No. 4, they plowed about \$4 billion U.S. dollars between 1970 and 1990 into the soybean industry in Brazil. No. 5, had subsidies on inputs for a while. They had preferential tax policies. There is not one mention, not one mention in the entire book, about U.S. farm policy. Not one mention. There were other factors, I think, that were clearly responsible. My own assessment is, Senator, I do not think that what we do modestly on the downside is going to have much effect. They are going to continue developing that land. I do not think there is much that can be done about it. We just simply have a huge competitive problem on our hands. Their variable costs are a little lower than ours. Some argue our land values are too high. Remember, we learned about 160 years ago that land values are not price determining. They are price determined. We capitalize into land values whatever there is in expected profitability. There really on a competitive basis, is no necessary relationship between land values and perceived competitiveness. There is for individual producers, but not on a competitive basis between the two countries.

Mr. SUNDBLAD. Senator.

Senator HARKIN. I am sorry, Phil.

Mr. SUNDBLAD. Just as a comment, recent groups have come back from South America. We probably lost our No. 1 status in the world as soybean producer to them, but also there is a fair amount of corn being grown down there. The original thinking was that the climate was not very good for growing corn, but not the case. That

is also a concern that we need to have. Their corn production can be very high also, and they have the acres to do that.

Senator HARKIN. I was in China in August and they are producing a lot of corn in China too. In fact, last year they exported corn from China. I do not know what is happening this year, but last year they did. We thought they were going to be buying stuff from us. I have never been to Brazil, so I do not know what is going on there. I see the data and I see the figures, and you are right.

Mr. SAND. Senator, I have a quick comment about what do we do about South America and their land use decisions. I would say we set a good conservation policy and ask the rest of the world to become good conservationists like we are after we get a real conservation program in place. We still have issues of what about U.S. policy and the amount of land we are bringing into production. With wetland regulations we now have reduced net loss of agriculture, net loss of wetlands to cropland, to only about 30,000 acres a year. It is still net loss in spite of everything that the government is doing to restore wetlands. Likewise on grasslands we still have a net loss of grasslands because more land is still being brought into production in spite of what we are spending on CRP and our other conservation programs.

I would just go back to the point we have got to bring conservation programs into balance with the subsidy programs because we are distorting our land use decisions too. We do not yet have a good system when a farmer says, I am throwing good money after bad to continue to farm these flood plains and to continue to farm these eroded, poorly productive hillsides, to give them the ability to put that land back into grass where it is a sustainable use. That is why we are so supportive of Conservation Security Act.

Senator HARKIN. I appreciate that. Again I say to all of you on this Conservation Security Act, we introduced it, but we are reworking it. Again, any suggestions and advice—any of you in the audience, please take a look at it. If you need it, you can get it from my office. I am getting more and more co-sponsors for it. I hope to make it the heart of the Farm bill and sort of build the other programs. We have to have some counter-cyclical programs, direct payment programs and things like that involved also, but to make this conservation one that we can hinge it around. Because as you point out, we do tend to get some urban support for that.

One other aspect of the Farm bill I want to mention—and I am really glad Mark Hamilton is here—that we have got to focus on, and that is this whole area of rural economic development and how we get more funds. I am looking at things like digital device, how we get broadband access into small communities, any kind of tax proposals that would help us in that regard, also new funding mechanisms to get capital here.

Mark, have you heard about this proposal from the Federal Home Loan Bank Board which would issue CDs, certificates of deposit, not the other little CDs—based on a Standard and Poor 500 index? It is an interesting proposal. I am going to get it to you. You take a look at it. It is a way that they think of getting money to small rural banks. For example, like those of us who live in small towns, I mean, you do not get much return on a CD. If that bank could take that CD and tie it to a Standard and Poor's 500 stock

index so that you would benefit on the upside, but you would never lose more than what you have got in it, but you could gain on the upside. That this might help get some money down to some of our smaller rural banks for the purpose of investing locally. I want you to take a look. I am going to get it to you. I want you to take a look at it. It is an interesting proposal, sort of just kind of new, just started. I want you to take a look at it. Some things like that we have just got to deal with in this Farm bill.

I know that, Joan, like you say, a lot of this is tied to policy, but it all works together. If we are going to resettle rural America as Mark Hamilton says, we ought to be doing it. I believe that. I believe there is a role for that. I believe that people would live here if, in fact—as long as we got—I do not want to get on my soapbox. If we have got the best schools for their kids anywhere in America, that is economic development. That is economic development. Think about that. That brings people here. People will give up a lot if they know their kids are going to get the best education anywhere in America.

Second, if we have—if we have not the low wage, but some different types of job opportunities for people here. That means if they can get on broadband and they can become part of this new economy, why not live here rather than live someplace else? They do not have any traffic problems and things like that. To the extent that we can get continuing education from our universities and our community colleges around the state of Iowa and more fully utilize the Iowa Communications Network for that so that people can continue lifelong education. These are the kind of things that tend to bring people to Iowa. That has got to be a part of this Farm bill mix in some way. Any further suggestions I would appreciate it.

I am going to open it to the audience unless someone has some other things that you want to bring up or mention or hit me with here at all. No. I am going to try to open it up to the audience here. What I need to have you do is, like I said, just say your name. If it is difficult, just spell it out so the reporter can get the proper spelling. We have a mic that Claire, I guess, is going to pass around. Here is a man right here already.

Mr. ROSE. My name is Frank Rose. I live in Spencer, Iowa. I am not a farmer. I am a farm owner, but not a farmer. I am concerned about the farmer. You are talking about a farm bill that is in the future. We need something now. We have just gone through eight years where there was not a policy for the fuel and whatever. It has lacked that. As a consequence, we are paying for it with higher fuel prices, higher fertilizer prices, things of this nature which is a determining factor for the young farmer. I believe that the Federal Government caused this, so they should take the responsibility. I believe that they should take what the average cost would be for the farmer in a normal year, what it is going to be for this year, and I think immediate payment should go to the farmer for this.

Senator HARKIN. Are you talking about energy costs?

Mr. ROSE. Yes, sir.

Senator HARKIN. I see.

Mr. ROSE. The energy costs—because the past 8 years Clinton did not have an energy program. It has an effect on it. Neil Harl made the statement that the Freedom to Farm did not have the ex-

ports. Two years ago I went across the street to Tom Latham's office, and I talked to him about this. He brought out the fact that three years in a row in Congressional records they voted additional money for the Clinton administration to use for export enhancement and the Clinton administration did not use one dime of it.

Senator HARKIN. Export enhancement?

Mr. ROSE. That is right.

Senator HARKIN. Export Enhancement Program.

Mr. ROSE. That may be what happened to our exports deal. We need something immediate. Thank you.

Senator HARKIN. You are right about the Export Enhancement Program. It was not fully utilized under President Bush or under President Clinton. Keep in mind the Export Enhancement Program—and the one problem I have had with it is it has mostly gone for wheat. We did not get much help in corn on that. Plus we had problems with Europe on the Export Enhancement Program because we ran into problems on the WTO compliance nature of the Export Enhancement Program, so we have had some problems with it. That is no excuse. It is just to say that there have been some real problems with it. It needs to be geared more toward corn. My staff says virtually no corn has been used under the Export Enhancement Program. It is been all wheat, and that is not right, that is not fair.

On energy though, I really take to heart what you say about energy. Someone mentioned this morning in the hearing—and I bring it up for your thinking—that we who are charged with the responsibility of developing the Farm bill, and by the way, it is not too far in the future. We are talking about this next year—is that we got to start looking at some things that we can do on energy in agriculture. How can farmers become more energy self-sufficient, for example? Well, we know that the most plain ones are ethanol. We mentioned soydiesel. If we could just get 1 percent of diesel to be soydiesel, that is about 300 million gallons. That would boost soybean prices by at least 15 cents a bushel. Last week I was in Cedar Rapids and poured a gallon of soydiesel into a bus. There are 32 busses in Cedar Rapids running on soydiesel. It works just fine. They have solved all the problems in it. Now we just have to make sure that we try to get it used nationally.

How can farmers themselves become more energy self-sufficient? There are proposals for wind energy which you are familiar with in this area. Solar. Biomass. Of course, that is more applicable to CRP land. We have that project ongoing now in southeast Iowa where we have 4,000 acres of CRP land growing switchgrass, and the switchgrass is being burned in a boiler in Ottumwa, the Ottumwa power plant. Some of the initial results were pretty good, again depending upon the yield of the switchgrass itself. That is a possibility. There is a lot of different possibilities like that that we ought to be looking at.

Mr. ROSE. May I just say one other thing?

Senator HARKIN. Sure.

Mr. ROSE. In 1996 Congress voted to drill oil in Alaska, and Clinton vetoed it. OK. That would put out a million barrels a day. What would that do to our farm economy had he not vetoed it?

Senator HARKIN. I do not know a heck of a lot. I do know that you are talking about the Arctic National Wildlife Refuge up there. To access oil would supply about as much as we use in six months plus it would take over seven years to get it to market. It would not be available for seven years. Ninety-five percent of Alaska's north slope is already open for exploration. Ninety-five percent is already open. The natural gas that is there cannot get here because we do not have a pipeline for it. Quite frankly, I think the only reason they want to drill in ANWR is so they can get the oil to sell it to Japan. It is not going to help us one bit.

I will say this: We need natural gas. Canada has more natural gas than they know what to do with. We are supposed to have a free trade agreement with Canada. What I do not understand is why we are not getting more Canadian natural gas down here. That is why two months ago I asked for the GAO to do an investigation. I want to find out what happened. We were told a few years ago we had a couple hundred years of natural gas, not to worry. We had more natural gas than we knew what to do with. All of a sudden we have one winter that is a little colder, and all of a sudden we have no natural gas. Something is not ringing true here. I want to find out what happened to the natural gas. Why are we not getting natural gas from Canada? What happened to all that natural gas they told us a few years ago that we had in abundant supplies for the next foresee—for as long as our lifetimes and our grandchildren's lifetimes? Something funny is going on out there, and I would like to get to the bottom of it on natural gas.

Yes, ma'am.

Ms. SOKOLOWSKI. Hi. I am Lori Sokolowski from Holstein. I would like to express a thank you to you, Senator Harkin, for allowing local farmers to give our input into the new Farm bill. The program that I am going to talk about today most people do not know about because it is a new program that we are starting in Iowa. I will give just a brief history and where we are up to date. It is a local food connection farm to school program. I introduced a new project on local food connections in the Iowa Farmers Union. The background for this program started in 1999 when I started networking with a group of local producers marketing our own food products together. Our organization is called Northwest Iowa Meat and Produce. Last summer we started developing an institutional market in the Cherokee County community. We began working with the Sioux Rivers RC and D on our rural supermarket project. Northwest Iowa Meat and Produce became a test program for their food project.

This past November the food service director from the Cherokee County school and I attended a local food connection farm to school conference in Ames. We were recognized as being the first local food connection in the state for providing ground meat products in a local school system.

Senator HARKIN. Good.

Ms. SOKOLOWSKI. I learned from that conference that Iowa has been approached to join a Federal school lunch program along with nine other states. In January of this year I put together a group of people who could create a new program for the development of a statewide institutional market. This is a way for producers in

Iowa to be able to network together. In the two months since we have had our meeting each agency and organization has found ways to make changes in the current programs and be able to collectively work together on being one team for this initiative. We will meet together again on March 30. Iowa is now a pilot project program for the Federal school lunch program. We will be introducing a complete food nutrition package offering both meat and produce from local farmers.

Senator HARKIN. That is good.

Ms. SOKOLOWSKI. Iowa has the oldest population age in the United States. However, our state is rich in resources. We need to take steps to turn this State around in agriculture and to help farmers find other alternatives in their current farming operations. We need to find alternative markets for their food products. It is time for local farmers to take control of marketing their own food products. It is time for producers to have more input on the current agricultural programs in our state. It is time to have programs that support local producers, not large corporations. It is time for local farmers to keep the retail share of our products and to share those profits in our communities. It is time for us to stop the importing of food products into our state, especially the items that are not labeled with the country, state of origin.

I would urge everyone to support the program that we have started. It is a challenge that we face. Sometimes we have to buck the system to get this started, but we have a lot of support out there. After March 30 we will have a new update on our new development.

Senator HARKIN. I commend you. This is the type of out-of-the-box kind of thinking and little things that we can do in the state of Iowa. It was said this morning that 92 percent of our productive land in Iowa is for two crops, soybeans and corn. Maybe we ought to be thinking more about livestock production, how we do different types of livestock production, different types of livestock. Again, this is not going to replace it all, but little niche markets, little things that are going on around. I met a producer this morning who was producing Wagyu beef. I do not know. It is expensive. He has got a market for it. Not everybody can do it, but I am just saying there may be things like that. What can we do to promote that and help take away some of the economic disincentives for doing things like that?

Organic farming. We are getting more and more organic. What was that mentioned this morning? A hundred and some thousand? I forget. 140,000 acres in Iowa right now to organics. Evidently it is growing. There is more and more of a demand for that. Again, it is not for everybody, but, gee, if this helps bolster some local income. We had a thing about what do we do to help people if they want to get involved? The CSA, by the way, Conservation Security Act, will help organic farmers because they will be able to do some conservation practices and get paid for it. Otherwise they would not get anything. I just ask you to start thinking about things like that, some of the things that came up this morning.

I am sorry. Yes. Go ahead.

Mr. ROHWER. A Chinese proverb says, unless we change our direction, we are likely to go where we are heading.

[Laughter.]

Mr. ROHWER. I used to think it was a joke. They say the way we are heading pretty soon there will be one farmer per county and his wife will have to work in town to put groceries on the table.

Mr. ROHWER. The relevance of this can be seen in the Economic Research Service finding that the top 10 percent of the farm subsidies get 60 percent of the subsidies. The top 10 percent nationally get 60 percent. In Mississippi 83 percent, and even in Iowa it is most of 50 percent. I propose that, as one gentleman said, we disconnect the subsidy from commodities and direct it toward people. If that is done, it can be done in a number of ways. One way would be to have a limitation that amounted to something. Incidentally, do not leave that limitation to the discretion of the current secretary of agriculture. That would not work at all well.

Flexible fallow will be the same thing without a limitation. It will again exacerbate the bulk of the benefits going to those who are already the wealthiest. Of course, the two of the biggest difficulties with the 1996 bill is that there is no provision for beginners whatsoever, and there was provision for people who were not even farming anymore. That is not good.

The idea of urban support, every farm bill has in the preamble that this is for the family farmer, and then the benefits go to the top 10 percent again. We could get some significant urban support.

Now, I should not say this because I have talked to the devil. I visited with Larry Bohlen at the farm forum who is the man that started the StarLink fiasco. He says that his supervisor wants him next to work on family farm issues. Well, if all that political generation of power could be devoted to family farm issues, think what we might have.

My plea is that we have a limitation on the subsidy per farm household. There are a number of possible ways that that could be done that I will not go into. I am sorry. I am Robert Rohwer from Paullina, Iowa, an active farmer and a landowner.

Senator HARKIN. I am sure that we will have a debate once again on payment limitations. We do. Sort of as day follows night we will have a debate on it. I do not know where it is going to go, but we keep having a debate on that every time we come around. I do not know. Neil, do you have any observations on his—

Mr. HARL. Let me just add this: Under flexible fallow the benefits would go to those who would enjoy the better prices, including the ones who did not bid their land into the program. Plus there would be a higher loan rate for those who did. Now, to the extent that that benefit falls unevenly, it would do as Mr. Rohwer says. The problem that we face is, is it politically feasible to impose tough limits? In 1999 we had a \$40,000 limit. In 2000 it was raised. The sum today of everything you could collect would be something over \$400,000, from all the programs. We have a limit, but it is not a very effective one. That is a worthy objective. With each passing day it becomes less and less possible because of the growth of the supersize operation.

Senator HARKIN [continuing.] If anything I think—and again, this is my sixth or seventh farm bill—it comes up every time. Now I recognize more of a support or at least thinking that we do not

need to subsidize every last bushel and every last bale of cotton. We just do not need to.

[Applause.]

Senator HARKIN. I sense this more and more, that it is just leading to all kinds of distortions. Obviously if you subsidize every last bushel and every last bale, then it does, of course, I should not say this in front of an economist, it does seem that it really promotes larger farming operations because the bigger you are, the more money you get. Then you can outbid someone else for land. Therefore it just promotes getting bigger. Our farm policies basically have the perverse kind of an effect. It is really actually promoting larger farmers if we subsidize every last bushel and every last bale.

Mr. HARL. Senator, in my view this is one of the threats to continued subsidization in agriculture. The nonfarm world is very supportive of funding if they think it is going to family farmers in trouble. The polls have shown for years that 60 to 65 percent of the people, uniformly, regularly indicate that. If they think it is going to the huge operations, that support drops and drops sharply. We do have a threat here that we need to deal with in terms of maintaining a flow of funding for family size operations.

Senator HARKIN. Absolutely. Yes. Back here. We have a whole lineup of people back here. Go ahead here, and there are a whole lineup of people.

Mr. SOLBERG. My name is Linus Solberg, and I am from Cylinder, Iowa.

Senator HARKIN. Hi, Linus.

Mr. SOLBERG. It gives you that they let radicals in here, does not it, Tom? They did not frisk me or anything. I want to thank you for having these hearings out in the country and testimony from farmers and not lobbyists. I would like to talk about a lot of things, but I am just going to talk about the pork checkoff. I am just going to talk about only the Farm bill.

In America it seems that you can only get as much justice as you can afford. When Congress debates the next Farm bill, family farmers will not be able to afford much justice, but corporate America will. Why do we continue to force family farmers to subsidize corporate America with overproduction?

In 1996 I told my Congressman, Tom Latham, that Freedom to Farm would be a disaster. Any farm program that forces farmers to plant fence row to fence row so that corporate giants can purchase cheap grain for export and cheap feed for the industrial livestock operations is doomed to fail. Forcing farmers to produce as much grain as possible in order to milk the government out of deficiency payments is ridiculous. Never in U.S. history have farmers been forced to maximize their government payments by predicting when grain prices will reach an annual low.

The new Farm bill needs to give our new secretary of agriculture the authority to manage grain supplies. For decades we have received ridiculous promises of increased exports. Farmers have heard all the propaganda. Corporate America brainwashed many of us into believing that GATT, NAFTA, WTO and Fast Track will save the family farm. Every farmer and rancher supports more exports. However, we need to face the facts. Most industrial nations

have their own overproduction problems, and the poor nations that need our food cannot afford it.

If the Ford Motor Company operated like the American agriculture, it would run all its assembly lines at full capacity 24 hours a day while actively seeking technology to produce even more cars. Rather than reducing output and meet demand and make a profit, they would continue to overproduce even though they were losing thousands of dollars on every car they make. If Ford executives behaved this way, they would be asking their stockholders to subsidize the company's losses on their cars. That is exactly what is happening in American agriculture. Congress and administration wants taxpayers to put billions of dollars into a system that is producing more grain than the market can handle. Now, you did not write this. OK? No American business operates this way.

Freedom to Farm was written by corporate America to sell seed and chemicals and make available piles of cheap grain. Farm Bureau and our commodity groups have been on the bandwagon since the beginning. Supporters of Freedom to Farm promise that the export explosion would keep prices high forever. They lied.

Senator HARKIN. Linus, how much longer? Thanks, Linus.

I did not want to cut you off. I just wanted you to sum it up was all.

Mr. SOLBERG. I would like to have you solve the problem at the end. I will give you a copy.

Audience member. Good summary.

Senator HARKIN. It is a good summary. I just wanted you to summarize it. I did not mean you to sit down. Go ahead.

Mr. NOLIN. My name is Karl Nolin. I am the president of Nolin Milling, Dickens, Iowa. If there was a Neil Harl fan club, I would have been an original member. I only—I got lots of thoughts, but I only want to talk about one thing. We are going to develop new seeds. I want these new seeds that are going to do wonders for our environment to either be owned by the colleges or by some entity of the government. These new seeds are going to be perennial crops that we plant once and harvest year after year after year. They are going to do wonderful things for the environment. We have to make sure that all the new crops that are going to be developed and all kinds of new traits have some public domain because there is going to be contracts on these crops that you will not own, you will rent the plant. When you rent the plant, I would rather rent it from Iowa State college than a private entity. It is going to happen. It has to happen. It has tremendous things to be said for the environment because we are going to plant that crop. It is going to hold our soil. It is going to keep our water from being polluted. We are also going to have nitrogen fixing so that we do not have to use nitrogen fertilizer which cleans up East Lake Okoboji so it looks like West Lake Okoboji.

There is a lot of really good stuff coming down the pipeline, and we got to get in the Farm bill lots and lots of research money so this becomes public domain and we are going to develop all types of specialty seeds. Corn is not going to be corn. Corn is going to be corn with special proteins so we do not have to add any soybean meal to feed. Corn is going to be 35 percent oil corn. Maybe we can raise corn instead of soybeans. We can change anything around.

The other thing, we can do this. There is a new corn plant that is a perennial, will grow year after year, that has been found in Mexico. We do not have to use gene splicing. It is just a matter of standard plant breeding. It is going to take us a long time if we do it with standard plant breeding, but we can do these things.

Senator HARKIN. Corn that just grows year after year?

Mr. NOLIN. Yes, we just go harvest.

Senator HARKIN. How does Pioneer feel about that?

[Laughter.]

Mr. NOLIN. Pioneer understands this. Pioneer understands it completely. Pioneer will not sell us seed. You are talking to a man that sells a machine that transfers seed. We are out of business with that machine. Pioneer understands it. They do not have to sell you a bag of seed. They rent you the plant, and you pay an annual fee. We also farm a little bit. I want to pay my annual fee to somebody that is easier to do business with than—well, I just assume Iowa State college—easier to do with than Monsanto. You got the point. I would like to have you look into it.

Senator HARKIN. Thanks, Karl. I will do as many people as I can here.

Mr. BIEDERMAN. My name is Bruce Biederman. I am from north Iowa, Grafton area. I have a farm bill that I have been pushing for the last couple years, and I have been working on it for the last 15. It basically addresses what Professor Harl has been talking about. I call it the zero cost farm bill because I go with the loan rather than any subsidy payments whatsoever. Support, not subsidize. What I call it is cost of production loan on all storable commodities, corn, wheat, beans, oats, cotton, anything. It would be set up so that in the fall is when you decide whether you are going to be a participant of the program, and this year's crop would be eligible for the cost of production loan. Then the next spring you determine—you set aside maybe a small percentage of your land to start with. It would be like conservation reserve acres to start with rather than—

Senator HARKIN. Is this a nonrecourse loan?

Mr. BIEDERMAN [continuing.] The loan would be set up so that when it came due that the price was not at or above the loan rate. It would default into a farmer held reserve. Then once it gets into there, it would have a little bit like Bob Brooklyn's program, like 125 percent release and then 150 percent call rate. Then the size of the reserve would determine how much of that particular commodity would be up for program the next year.

Another stipulation would be that it figures out to about like a 1,500-acre farmer would be about the maximum size that you would subsidize or support this way. Once you get certain crop—or commodity up to a certain level, that you would maybe shift to another one or whatever. You do not have to set aside. You would modify the price. It would bolster it to at least the cost of production or above, and you would be guaranteed a good price if it did go on the reserve. It would be self-regulating because the size of the reserve could be determined by the production.

Senator HARKIN. Do you have some paper on that?

Mr. BIEDERMAN. Yes, I do. I have several copies.

Senator HARKIN. Thank you. Thanks, Bruce. If any of the panel up here have any thoughts or suggestions, just yell out. Yes. Go ahead. I am sorry. Go ahead, please.

Mr. WIMMER. My name is Perre Wimmer. I am a local livestock broker. Talk daily, weekly with a lot of pork producers in northwest Iowa, southwest Minnesota. A lot of the topic today has been on grain. However, I guess my question is in regard to the pork checkoff recent vote that occurred. In talking to most pork producers they feel and realize they need to promote their product. However, a lot of them very concerned that the recent referendum that was clearly won in the favor of those producers has been circumvented and overturned without any regard to those persons that voted. Just wondering if there is any input from your part on that?

Senator HARKIN. Well, I was going to ask if that is right. We had the pork producers this morning. Well, if you are asking my view on this, look, we are facing a difficult situation. It looked as though the district court in Michigan was going to throw the whole thing out. I understood that Secretary Veneman had to try to reach some agreement on this and to strike some kind of a deal. I understand that. My only question is why it had to be a two year? Now it goes to 2003. That seems to be way too long. We intend to have her down before the Ag Committee to ask about this. I do not know exactly what the next step is in this.

I will tell you one of the things I am thinking about working on in the Farm bill that I have not mentioned here but I would like to have feedback from you on it. The whole checkoff issue as I talked to both sides on this issue, raised a really serious question in my mind as to all these checkoffs that we have. We have corn checkoff, soybean checkoff, cattle checkoff, pork checkoff, chicken checkoff, turkey. We have all these checkoffs. It seems to me that when you have a mandatory checkoff system like that, that periodically it ought to come up for a vote of the producers.

[Applause.]

Senator HARKIN. I am just saying every five years there ought to be a vote among those who participate as to whether they want to keep it or not. That might have a salutary effect. There was some legitimate concern on the part of some pork producers that the council—

Audience member. NPPC.

Senator HARKIN [continuing.] Yes. The checkoff people were too close together and that they were not separated and they were not really getting value for the checkoff money they were putting in. Well, if a vote has to come up even in court or anything every 5 years, then maybe the people who are handling all that money will be more responsive to the producers and go out and be a little bit more careful. Like anybody here that has got to run for reelection. You pay attention to your constituents.

Mr. WIMMER. I guess my concern of the whole thing was that it was a democratic process that was gone through, and that vote was made. Whether NPPC liked it or not, that was the will of the people. Al Gore even got a chance to take his court to the supreme court. It appears to me that the pork producer was just cir-

cumvented at that point. Just the principle of it. Whether you are for it or not, the principle of how that was handled is of concern.

Senator HARKIN. It is of great concern. It was not handled well. Like I said, the court case was one that was hanging over their heads. Perhaps—and I just throw this out—I do not know that both sides like this. I have suggested that maybe we ought to just have another election. Maybe just have another vote out there. Well, those who won the vote said we had the vote. I am not certain that we just cannot—maybe we have to go through that process again. I do not know.

Audience member. Vote until you like the outcome?

Mr. CHRISTENSEN. We have another example here that could be stated. Carl Jensen has one.

Senator HARKIN. We are facing the situation now that I do not know what to do about it other than try to have another vote or have it come up sooner than 2003. That is the only thing I can think of unless somebody has some ideas on this. Yes.

Audience member. I think when—

Senator HARKIN. You better get a mic so everybody can hear you.

Ms. BOWMAN. We have a couple people waiting for really quick comments. We are running really short on time.

Senator HARKIN. I will get back to you.

Mr. TAYLOR. I am Steve Taylor from Hartley in O'Brien County. I guess I am maybe one of the dying breeds of farmers that my sole family income does come from the farm.

Senator HARKIN. You are a young man.

Mr. TAYLOR. I am hoping to keep it that way, I guess. One of my things or thoughts is I do not think you have realized that we have not lost a ton of farmers over the last 20 years with the farm policy, but we have lost a lot of people like me that have solely lived off the farm. If you would take them numbers, you would find that you have maybe erred in your ways.

Coming back to the idea of subsidizing production, so it is the fairness issue. When I first got thinking about farm policy, I always thought we needed the government out. Let us work on our own. You know, I am ingenuitive enough I can make it work. When I got to start working and competing with government dollars, it is almost impossible for me to do. The longer I think about it, the more I realize and the more I get involved, we are not going to get the government out. They want their hands in.

The way we do that, we have got to change. If we are paying anybody over the cost of living, we are unfairly subsidizing production. Neil Harl talked, if we cut payments altogether, we are going to decrease our values in land and rent. Well, we need to cut them 30 percent to bring them back in line from what we have skewed with what we have done since 1996 I guess my feeling is that we need to look at this—you are never going to make a program fair to everybody. You have to decide which side of the fence do you want to stand on. Do you want to support the rural communities, or do you want to support the guy that is going to grow and grow and grow? I guess that is about as simple and plain as I could put it. I have got a lot of other details, but I could go on and on and on.

Senator HARKIN. You have summed it up pretty accurately, I think. That is just about the divide right there.

Ms. BOWMAN. We have several—

Senator HARKIN. Right here. We had this man right here wanted to say something. Claire, right here.

Mr. BRAAKSMA. I am George Braaksma from Sibley, Iowa. I guess I have been taught in this country that our vote should count. In the direction of in the general public's interest that is what America was built on was a vote. When them votes do not count, that creates people to think different about our country. That goes to our election that was last fall, also here in agriculture the same example with the pork issue. That has got to be brought up that maybe this changes people's attitude when it does not count, that we do not have full faith in our country. That is disappointing.

Also on an issue with the—I am in a situation with a four-lane road going to go through some of my property. With that in hand, that is in the general public's interest for better roads. I am all for better roads. I am all for issues that is for the general public.

It goes back to Mr. Sand over here with conservation matters. I feel strongly with conservation matters, that we look at that as if the water was a road and that we take care of them type of things that human beings need. That is, to survive we need food, we need water. We look at energy as one of the things that is something that is above food and water. We need to exist with food and water. Conservation practices to me in the Farm bill is one of the highest priorities because it is what we need to raise that livestock and all them things. I am going to let that go at this time.

Senator HARKIN. Good. I appreciate that. We are going to make it, I hope, one of the highest priorities.

Mr. HARTMAN. I am Joel Hartman, a farmer and cattle feeder here in Clay County, Iowa. I served the Iowa Cattlemen's Association as the chairman of their environmental policies committee. I will try to keep my comments very brief here. I have a concern with your farm bill proposal, Senator. It is Section Prime E dealing with annual payments not being able to be used for the construction and maintenance of animal waste storage facilities, as several panelists have mentioned the use of the EQIP program in employing practices to help us protect our water resources. As you know, the EPA is considering some extremely expensive regulations, regulations which will cost us about a billion dollars to comply with. Some that by their own estimates will incur \$5 of cost for every dollar of benefit. If the cattle feeding industry is going to be expected to shoulder that kind of a cost, we certainly are going to need some Federal assistance in doing that.

The EQIP program right now is part of the current Farm bill and is the only mechanism we have to work with that, but the program is woefully underappropriated. Only about \$200 million has been appropriated this year in through the program. Here in Iowa it is about 5.7 million, and yet there was over \$15 million in requests made of that program. We need a lot of money in there.

There are also some restrictions on that program that make it inoperable for our livestock producers to use, that being in particular, the restriction of the 1,000-animal unit cap. A 1,000-animal

unit feedlot is a capital investment approximately equal to 140 acres of Iowa crop ground. The EQIP program does not make a restriction on how large a farmer can be in acres to receive a direct cost share benefit, but they are doing that with the livestock producers and doing it at the very level that EPA is targeting for the most expensive programs to be put in place. That is one problem that we need to have addressed. We really cannot wait for the Farm bill to do it. That is something that could be done right away.

The other problem with the EQIP is the prohibition on the use of EQIP moneys for engineering. EPA requires that their NPDS permits be signed off by a licensed engineer. The EQIP program will not cover that expense. For those smaller AFOs that is a major part of the expense. We need to have that issue addressed. With that, I thank you, Senator.

Senator HARKIN. Just a second. I did not know this about the engineering. I was just asking my experts back here on this. Evidently EQIP covers technical assistance and everything like that, but it does not cover third-party engineering or something like that. This is new to me.

Mr. HARTMAN. No, sir. The word that I have from NRCS is that it will not cover the third-party engineering. The projects are basically pre-engineered by NRCS people. The technicians will come out and help install, but EPA still requires the NPDS permit to be designed by a licensed engineer. The cost of that engineer is about the same irregardless of the size of the operation. If you are looking at 500 head versus 5,000, that 500-head operation will incur a ten times larger engineering expense. We think that could be addressed by simply removing that requirement, or that restriction, excuse me, from the EQIP program along with that thousand animal unit restriction. It is very discriminatory and does not make any sense.

Senator HARKIN. Right. Both are duly noted. Thank you for the engineering. This is new to me. I did not know about that, obviously about the CAFO limit of a thousand. We are looking at changing that, maybe expanding that somewhat. We do not know where and how much. Also the EQIP program, you are right, we have got three to five times more requests than we have had the money for. We have got to get the money in there, and hopefully we will have room in the budget this year for it. Again, we talked about the budget. It was Phil mentioned something about the budget earlier. I do not know about the House side, but on the Senate side it looks like our budget was proposing perhaps about a seven percent cut in some of our discretionary programs. I do not like that at all.

Mr. HARTMAN. Please be sure that that type of funding will be available under your proposal, Senator. It is a little contradictory between part E and I think an earlier part in your program.

Senator HARKIN. We were focused only on land. We thought, we will leave the EQIP program to do the facilities, see. That was going to be the dividing point. Maybe there has to be some melding of the two somehow. Thank you. Duly noted.

I am told we have three people left. I just want you to know if any of you have any written comments, just please get me written comments any time or you can e-mail me at my offices. This is

going to be an ongoing process. I will be having more hearings in Iowa with the Ag Committee, so do not worry. We will be having some more in Iowa here in the months coming up. Who else is left? Here. You have got a young man right behind you.

Mr. MEYER. There are three things I have got to address you with. First of all, Don Meyer. I live up by Harris. Anyhow, one is this conservation and CRP ground. I had the very same thing confirmed by a man alongside of me a long distance away. Anyhow, in our area I can point to you farms that were bought and then put the whole farm in and then they go on down to Florida or Texas and were being paid so much for the acre. Actually the Government is buying the farm because they put a down payment in it, and then after that they got so much an acre. After while the thing is paid for. That is one.

Then the second is I do not care what direction you go down the highway. You see the monument, the silo, and the empty feedlot and the empty—this Iowa has lost—that is what I would call a monument to a dead industry. Am I right, guys, or not?

Then the estate tax. My father bought 240 acres for me back in about 1963, 1964. It worked out he paid 80,000. Then I had to wait for Mother to die in order to inherit that, get it. I had to pay just the amount what Dad paid for it in 1962 or 1963 for estate tax. All of a sudden I owned a piece of dirt if I could pay estate tax of 80,000 on that piece of dirt. Then it would be mine. There is one there, this estate tax.

Senator HARKIN. We are addressing that hopefully in the tax bill, and we are going to raise some of the levels. Right now it is 675. What is it now?

Mr. HARL. It is 675,000. If there is a business involved, it is 1,300,000 including the family on business deduction, plus a special use valuation cuts the value of farmland very, very substantially. Those are doubled for husband and wife together. I have indicated my support for raising that to 2 to 2.5 million per decedent.

My concern—and I am opposed to the repeal of Federal estate tax for reasons that we do not have time to go into. I do not think it should impact adversely what I call mere mortals. What I worry about are people up here in the stratosphere in terms of wealth. We need a Federal estate tax.

What is more important for agriculture is the new basis of death, a wipeout of the gain at death. That we could lose if we are not careful here, so it is a very complex issue. If you would like to have more information, I do have some publications on the arguments for and against repeal.

Senator HARKIN. I can assure you that we are going to raise the level of estate tax exemptions for farms and small businesses. That will be raised. I do not know exactly what the level is going to be. It will probably be somewhere in the neighborhood of as much as \$3 or \$4 million perhaps, somewhere in that neighborhood, which will just about cover everybody. It will be in that neighborhood. I can assure you that is going to happen.

Mr. JENSEN. Carl Jensen, a cattle feeder from Everly, Iowa and chairman of the marketing committee of the Iowa Cattlemen's Association. I wanted to thank you for holding this hearing. I have written up the comments, and I will hand them in to you. I am just

going to summarize real quick what I have got in here. Basically the livestock mandatory price reporting bill has been stolen by the bureaucrats, and it is not the bill that we intended to be passed to put into effect. What has happened to the law because of this 360 Rule, which I am sure you are aware of about the three packers or one packer having more than 60 percent of the business, those figures cannot be reported. While the new mandatory bill gives us more historical information that economists can use, like Dr. Harl and others, to analyze what happened, we are actually going to have less information for cattle feeders to use to market their cattle and know what their cattle are worth. We need to see if there is something that you can do.

An example of what happened, the 360 Rule also applies to the boxed beef trade which becomes mandatory. They ran a simulation of Wednesday's boxed beef report that came out. In that simulation by applying the 360 Rule, which takes effect April 2, 40 percent of the items that were reported on Wednesday will no longer be eligible to be reported because of the 360 Rule. This is just ludicrous that this has occurred. We certainly need your input and Chairman Lugar and Senator Grassley and the rest of the Iowa delegation to see what they can do to correct the situation. It is coming up here very fast. I have submitted written copies for you to see more detail, but I just wanted to summarize it.

Senator HARKIN. Again, I can assure you, Carl, this is something that has not gone unnoticed. I know about it. My staff knows about it. You are right. We have got to get to the department and get that rule changed quickly.

Mr. TIGNER. My name is Ron Tigner. I am from Fort Dodge, Iowa. I used to milk cows with my dad until milk prices hit about \$11 a hundred weight. Now they are about 850. I am sure there is going to be lots of farmers going out of business here soon. In fact, some of the big corporates are hurting bad too.

My comments are—I was not going to talk about this at first, but I will now, about the pork checkoff, because you talked about it. A 5-year period between referendums is much too long a period. The corporate integrators are going to put people into contracts, and they are going to put the independents out of business till they get it to a point where they will have the checkoff referendum in their favor, what the vote is. They are going to limit the number of people who are going to be eligible to a small timeframe, which they did in the pork checkoff. It has got to happen within a few years between timeframes. A 3-year timeframe for the pork checkoff is going to be too long. 2003 is going to be way too long. They are going to work their tails off to make sure independents cannot vote in it.

Now, my overall comments that I had thinking of coming in here were in asking the question of what new directions we need in Federal farm policies. It seems to me we need to go to the beginning. By this I mean in 1908 a national commission decided that resources, people, money and so on need to be moved from rural areas to urban areas. Prior to those years we had always seen in the United States an increase in the number of farmers. Since then for every year there has been a steady decline. In the 1950's our own government studies said those trends should continue. Even

the best known farm organization in the United States's national president said that should continue. We all know that our philosophy is we need the lowest cost of production for food and the fewest farmers farming as possible. That is our national policy, and it continues today.

I do not feel we will improve farm communities and bring back more farmers until we have a new national philosophy, a new national policy that says we need more people farming and fair market prices. We need an affordable food policy and a sustainable agriculture and rural community policy. We need to ditch the old philosophy.

We also need a moratorium on mergers and acquisitions in the food sector and vigorous enforcement of the packers and stockyards act with improvement in antitrust legislation to reflect its impact on farmers, not just consumers and not just—

Mr. TIGNER [continuing.] Not just when it reaches some high threshold of monopolization, rather when the effect in the marketplace by a combination of factors is the same as a monopoly. Thank you, Senator Harkin.

Senator HARKIN. Thank you. I appreciate it. One more.

Mr. BIERMAN. Thank you, Senator Harkin. I am Tim Bierman from Larrabee, Iowa, farmer, pork producer, also on the board for the Iowa Pork Producers Association. I wanted to talk to you about two things. One of them is last year you appropriated nine million for the funding of the National Disease Center and National Veterinary Services. We need to continue in that so that Iowa State and the USDA facilities can move forward. In lieu of that, as we all know, the European union over there has foot and mouth disease. We need to be more concerned about the foreign animal disease coming into this country, so we need to increase our surveillance. We know there is an increased regulation of producers using human waste products in this country because we know they are coming in on ships and planes and other things. It can come in on those—foot-and-mouth disease can come in on those ships and whatever. This year if it comes into the United States, it will not matter if we have a checkoff because we will not have any hogs to be raising in this country. We will be slaughtering them like the European union. It moves on to the cattle. Then it will affect the grain farmers because how much grain do we eat up? This ought to be No. 1 and then to make sure we survive. We can live if we can keep that out of this country. Thank you.

Senator HARKIN. Tim, thank you. I am glad you brought that up. I did not mention this earlier, but I went to the National Animal Disease Lab yesterday. I watched the disposal of some of the sheep that was there. It is being done in a very safe manner, humanely. They are now examining the brain tissues of the sheep. It just points up again, I think, what is happening in Europe, the need to rebuild for the next century the National Animal Disease Center at Ames. Now, again, the price tag is high. We are looking at about somewhere in the neighborhood of about \$400 million to rebuild it. Keep in mind Europe is losing over \$100,000,000 a day in their losses. It has already cost Great Britain \$5.3 billion. We need a National Animal Disease Lab that is a actually a world center more than just a national center. We have the basis for it in Ames, but

it is 40 to 50 years old. They need new equipment. They need new labs. They need new research components. They need new disposal facilities. Not only for that, but to fight bioterrorism and for food safety. We have to be prepared for this in the future. I am going to do everything I can to ensure that we rebuild and refurbish that laboratory at Ames. I am hopeful that—I mean, no one would wish this. With what is happening now, maybe some of my colleagues now in the Congress who did not think it was a very high priority item now will see that this is a high priority item for our country. We need to rebuild it, so I am glad you brought that up, Tim. It is something that we cannot continue to put off year after year.

With that unless there is something else from the panel, you have been very patient and kind to sit there. If there are any last things that any of you wanted to say before we adjourn, I would sure—

Mr. HARL. Could I just add one note? Mr. Nolin made a point about germ plasm in the public domain.

Senator HARKIN [continuing.] Yes. You talked about it.

Mr. HARL. I testified before the Senate Agriculture Committee in October 1999 on that and said we need to fund at least a half dozen plant science centers at state-of-the-art levels, and we need to be sure that the results go into the public domain, not into the hands of the big transgenic hybrid producers. We are down to five of those on a global basis. We will be down to three in about 3 years in my view. That is awesome concentration. We have got to do what Mr. Nolin says.

Senator HARKIN. Again, that ought to be part of the research component of our Farm bill.

Mr. HARL. Exactly.

Senator HARKIN. Any help, Neil, you can give us on how to write that and what to do with it, I need your help on that. Anybody else? Joan.

Ms. BLUNDALL. If I look at one issue that comes up in therapy which is rather surprising from rural populations—it happens over and over again, and I think there is a danger in it. When a populus believes that they have no shot for stability, we are at risk. It is not atypical to hear people talking about concentration in the food industry, about not having access because we do not have the technology or the resources. Somehow we have got to build some bridges for opportunity, and we have got to do something about concentration.

Senator HARKIN. That is just about the proper note to end on. You are absolutely right. We do have to do something about concentration, and we are going to focus on that. The hour is getting late. You have all been very patient to be here. This has been a great hearing. I have gotten a lot of good information. I can assure you that the suggestions and advice, consultation that I got here today will be part of the record. We will continue to have hearings here in Iowa as we go through this year to develop the next Farm bill. I take to heart everything that I have heard here today. This is just vital to our survival. I take to heart what Phil said from the Iowa Farm Bureau, that this has got to be more than just commodities. You got to look at credit, and you got to look at everything. You got to look at rural development, all these things. You have

got to look at all this stuff. We are going to keep that together in the Farm bill I can assure you.

Thank you all very much. The hearing will be adjourned.
[Whereupon, at 3:50 p.m., the committee was adjourned.]

A P P E N D I X

MARCH 24, 2001

U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
HEARING ON AGRICULTURAL AND RURAL COMMUNITY ISSUES
SENATOR TOM HARKIN, CHAIRMAN
MARCH 24, 2001

Today I am pleased to be holding in Iowa two hearings of the United States Senate Committee on Agriculture, Nutrition and Forestry. The testimony from our panelists and from the audience will become a part of the Committee's official hearing record. Your comments, ideas and recommendations will be a great help to my colleagues and me as we work to write new legislation and improve programs affecting agriculture and rural communities.

Farm families and rural communities in Iowa and across our nation need new directions in federal policies. They have not shared in our nation's prosperity. Although Freedom to Farm had its positive features, it had serious shortcomings that are now quite obvious. However, we will not just go back to the previous policies. We have to learn from experience and make the necessary improvements. We must start by restoring a built-in, dependable system of farm income protection that does not require annual emergency legislation.

We must also remember that farmers are the foremost stewards of our nation's natural resources for future generations. We should strengthen our present conservation programs and adopt new ones to support both farm income and conservation. I have authored legislation to create a new, wholly voluntary program of incentive payments for conservation practices on land in agricultural production. That approach – improving both farm income and conservation – should be at the heart of the next farm bill.

To meet the challenges, the next farm bill must address the broad range of farm and rural issues. We must do more to promote new income and marketing opportunities – whether that is through value-added processing cooperatives, creating new products through biotechnology, developing niche and direct marketing or increasing exports. I see tremendous potential for farm income, jobs and economic growth through clean, renewable energy from farms: ethanol, biodiesel, biomass, wind power and even, on down the line, hydrogen for fuel cells. We must also ensure that agricultural markets are fair, open and competitive.

We cannot have healthy rural communities unless both farms and small towns are doing well. We should do more in the next farm bill to revitalize economies and improve quality of life in rural communities. That includes support for education, health care, telecommunications, water supplies and transportation, as well as access to investment capital for rural businesses.

Again, I thank all of you for taking part in these important hearings.

**Testimony
of**

**Neil E. Harl
Iowa State University**

Presented at

**Field Hearing
U.S. Senate Committee on Agriculture,
Nutrition and Forestry**

**Spencer, Iowa
March 24, 2001**

Farm Policy Considerations^f

—by Neil E. Harl*

The 1996 farm bill was touted as the legislation which would transition agriculture to a free market, reduce government outlays and boost farm exports. In the years since enactment, costs have risen to record levels (more than \$28 billion in 2000), exports have fallen almost 20 percent and the level of economic trauma has risen. Recent projections showing that U.S. net farm income could drop more than \$9 billion over the next two years (from the current \$45.4 billion to \$36.3 billion in 2002) have been particularly unnerving. Clearly, the 1996 act, which introduced an adjustment model based on economic pain, was unacceptable to the Congress. It is a fundamental tenet of politics in a democratic system that constituency pain trumps ideology.

The problem, in short, is too much production of basic agricultural commodities. Better prices can be expected with (1) bad weather in major producing regions; (2) increased domestic demand; (3) increased exports; (4) shifts in land use patterns; or (5) a change in policy. At this juncture, it would be difficult to attach a very high probability to any of the five possibilities. Of the five factors, only change in policy can be accomplished in the near term by Congressional action.

I. Choices in Farm Policy

With the convening of the 107th Congress in January, 2001, the focus of at least the House and Senate Agriculture Committee has been on farm policy. News that more than \$28 billion was spent in fiscal year 2000 (and yet economic trauma persists) has provided an unsettling start to the new Congress. Although the 1996 farm bill runs through 2002, debate will begin in 2001 on the contours of the new farm bill with some chance for change in 2001.

Three choices. Congress faces three choices on how to proceed in the face of low commodity prices, high levels of budget outlays at the federal level and continuing economic problems on the part of producers.

- One possibility is to continue the heavy subsidization that has become the hallmark of the 1996 farm bill for the “program” crops. While the \$28 billion plus for the 1999-2000 federal fiscal year is a modest fraction of the country’s food bill, it is large enough to be a visible budgetary target.

If the country is in the early stages of an economic downturn, as seems entirely possible, that level of expenditure may loom even larger this coming year. With the budget surplus narrowing, or even disappearing, less money will be sloshing around Washington and additional appropriations for agriculture may be more difficult to obtain.

^f Presented at Field Hearing of the U.S. Senate Committee on Agriculture, Nutrition and Forestry, Spencer, IA, March 24, 2001.

* Charles F. Curtiss Distinguished Professor in Agriculture and Professor of Economics, Iowa State University, Ames, Iowa; Member of the Iowa Bar.

- A second possibility would be to reduce—or eliminate—federal subsidies for agriculture. That would likely result in a reduction in land values. Much of the subsidies is being bid into cash rents and capitalized into land values. One cannot justify present land value on the basis of existing commodity prices. If investors were to develop an expectation of less federal funding—or none at all—land values would likely decline. The drop would be severe if withdrawal of subsidies is abrupt. After all, land values are based heavily on expected profitability of the dominant crops in the area.

Some have argued for a withdrawal of all subsidies with land values falling to a new lower level. Equilibrium would eventually be re-established for returns to labor and capital near present levels. But returns to land would almost certainly be re-established at lower levels on a more or less permanent basis. While that might be appealing to some, the ride down would be rough—possibly a greater decline than experienced from 1981 to 1986.

Yet, the awesome part of this is the growing vulnerability of the sector to just such an adjustment.

Even with the sharp declines in land values, pressure on prices would continue as supply fluctuates but with technology likely pushing the supply curve to the right faster than demand is likely to increase.

Those who point to high land values as a factor in international competitiveness are wide of the mark, however. It's been clear since repeal of the corn laws in Britain more than a century ago that land values are price determined, not price determining. Land values are not properly viewed as a cost of production but as the result of expected profitability. Thus, higher land values in the United States than in Brazil should not be viewed as a problem. What will drive down land values is a decline in expected profitability. Higher profitability does not necessarily flow from lower land values.

- The third possibility is to return to the Secretary of Agriculture some of the authorities swept away in the brief period of economic euphoria in 1995-1996. That would enable the Secretary to act as the surrogate CEO of agriculture and to manage inventories as other CEOs do. Many companies occasionally experience excess inventories—Deere, Intel, Boeing, General Motors, indeed virtually every firm in the world. The time honored solution is to idle people and idle productive capacity.

If that is the direction the country takes in its farm policy, the programs should be designed to encourage resource idling at the periphery and to do so in a market-oriented manner. Programs should take into account the clear trend for technology to boost supply faster than demand is likely to increase.

The more dramatic increases in demand are likely to occur in developing areas of the world with a high income elasticity of demand—where as much as 70 percent of additional income goes for food. Support for Third World economic development would be nearly universal with an objective of eliminating hunger and assuring an adequate level of nutrition everywhere by enabling consumers to purchase needed food.

The second best solution. Most farmers and landowners would prefer to make their own production decisions and to produce flat out. That is the first best solution for many.

But the first best solution may produce such budgetary consequences that it may not be attainable. If that is the case, what is the second best solution? Let land values fall? Or to try managing inventories for a change?

It's time to begin serious consideration of a second best solution.

II. Concerns about the 1996 Farm Bill

The 1996 Farm Bill represented a significant departure from traditional federal farm legislation. While the transition away from government programs could produce a more rational system of resource allocation, several important implications of the shift deserve mention.

Loss of safety net. The loss of the so-called *safety net* as protection against low prices is proving to be serious problem, as we had feared. While some sectors of U.S. agriculture have recently enjoyed reasonably good prices, low prices have persisted for most crops.

U.S. farmers are the world's best economic citizens. Give them half of an economic incentive and they will increase output. The result is a disproportionate drop in price and profitability. This means that consumers are in a very favorable position. Over the long term, they are assured of an ample supply of food and fiber at a relatively low cost. However, it also means that producers periodically endure periods of low prices.

Less economic buoyancy. It was feared that elimination of the federal farm programs would mean less economic buoyancy from government. Instead, the proportion of farm income coming from government programs has exceeded the relatively high levels of the mid-80s, with more than \$28 billion spent in fiscal year 1999-2000.

Shift in land use patterns. Another significant feature of the elimination of federal farm programs is the shift in land use patterns that would occur over time. Shifts in land use will be dramatic and felt across the agricultural sector, but the greatest shift will occur in areas of marginal land.

Adjusting production. Traditional government farm programs attempted to help balance demand and supply by idling land. Depending upon the year, the amount of idled land ranged from none to 70 to 80 million acres.

The land was idled in checkerboard fashion—some of the very best land was idled and some of the poorest. This was not economically rational but it spread the burden of adjustment over the entire country and it did not squeeze producers economically as adjustments were made in the productive base.

Under the 1996 legislation, production decisions are left to the market. In addition, the market doesn't adjust production in the same way as government programs. The market

squeezes out the thinner soils and steeper slopes—the higher per-unit cost of production areas.

With no land idled, production increases cause crop prices to fall and land values come under pressure until there is less profitability for crop production on the least productive land than for the next most profitable use for that land. The least productive land then transitions out of inter-tilled crops to a less intensive use or to another crop or grazing land. Depending upon the area, some might transition to wasteland.

Rather than having 70 to 80 million acres of farmland out of production on a checkerboard pattern; there could be that many acres that would transition to a lower-valued use. The transition would tend to be concentrated in areas with lower productivity land that has thinner soils and lower rainfall.

Adjustment pain. This movement of land to a less intensive use spells economic pain for producers. The adjustment pain is felt, not just by those at the periphery of the core producing areas, but by producers everywhere. So, while the market is doing its job, the squeeze is felt even by those on the most productive soils. The production of major crops shrinks into a more compact area of the best land.

However, Congress does not like for constituents to suffer economic pain and so have thwarted the very process legislated in 1996 by appropriating huge amounts of assistance.

Swing factor in production. That zone of thinner soils and steeper slopes at the periphery of the major crop producing areas becomes a swing factor in production. In times of good prices, it swings back into intensive production. When prices fall, it's squeezed out again. This is why the most intensive resistance to the 1996 Farm Bill has been in those swing areas where the next best use represents an economic jolt for producers and others involved.

Figure 1 illustrates the fact that, for each major crop, there will be a core area of production and a *swing zone* at the periphery.

These land use shifts aren't likely to be one-time events. As exports rise (or fall), domestic demand rises (or falls) and changes in supply from technology and weather occur, the zone of swing acreage at the periphery of the core areas will see shifts in land use.

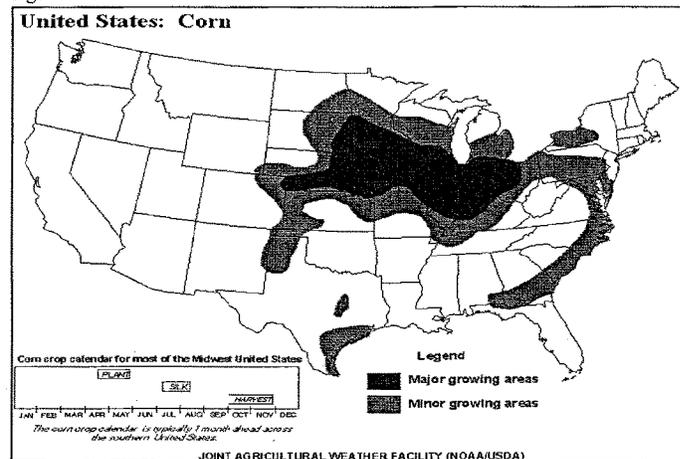
Conclusion. All of this was believed by some to be rational economically, but it adds enormous uncertainty for producers, input suppliers, storage and marketing firms, and shippers; enormous costs for government; and enormous pain for producers.

III. Fine Tuning Freedom to Farm

Five possibilities could turn crop prices around—(1) dramatically improved domestic demand (which is highly unlikely); (2) bad weather (which is not something we can count on); (3) better export levels (which, at the moment don't seem to be in the cards); or (4) the operation of the market as low prices eventually squeeze out higher cost producers—probably at the

periphery of the major producing regions—with those producers shifting their land to another use, possibly grazing; and (5) a change in policy.

Figure 1.



Actions by Congress have sent a fairly clear signal that the economic pain inherent in the fourth possibility is unacceptable, politically. The enormous expenditures by government for farm program subsidies since 1997 have been designed to reduce the economic pain for producers. Even at the levels of spending observed in 1998, 1999, and 2000, farm incomes have fallen.

The troubling scenario is that with little pick up in exports and average or better weather, we could be in worse shape a year from now than we are at present.

Fine tuning options. That's why it seems prudent to begin to ponder some *fine tuning* options on a contingency basis—if crop prices aren't boosted by bad weather or a pick up in exports. Here's a short list of six items to think about. Many people, including some in the new Congress convening in January, will almost certainly be inclined to hope for bad weather—somewhere else—but that is not a sure thing.

Farmer-owned storage program. Re-establishing a farmer-owned storage program for major commodities under carefully established rules for release could help to insulate some production from the market. It would make the most sense if the low price problem were to last

for only a year or two.

Long-term land idling. Long-term land idling (up to 20 years) in marginal production areas in the so-called periphery or *swing zones*, is a necessity. Those are the regions that are expected to be squeezed out of intensive crop production in times of low prices but get back into the ball game when prices recover.

An increase in the Conservation Reserve Program to 40 million acres (or even higher) could be one component of such an initiative along with incentive payments to implement and maintain approved conservation practices.

Long-term land idling could help ease the economic and social costs of adjustment in those areas. It would mean less sales of fertilizer, chemicals, seed and machinery and so it would impact the communities. But those communities are hurting now and will suffer from the periodic market adjustments that will characterize their economic life from now on.

Another approach advanced by a group of South Dakota producers would allow producers to bid land into retirement with a reward of a higher loan rate. This approach is market oriented and has considerable merit as a way to achieve a reduction in supply on an economically rational basis.

Discretionary short-term land idling. If prices of major crops were to remain for a specified period below a designated level for specified period (with both aspects determined within a legislative framework) standby authority should be given to the Secretary of Agriculture to implement a mandatory acreage set aside program. This would be viewed as a last resort measure to cope with pressures on the supply side. One thing we learned decades ago—it is less costly to prevent production than to compensate farmers for lost income once price and profitability have been driven down disproportionately.

Direct lending and loan guarantees. To deal with a possible credit crunch, adequate funding for FSA direct lending and loan guarantees for limited resource borrowers is needed.

Marketing loans and LDPs. Finally, it seems prudent to continue LDP and marketing loans, possibly with a slightly higher loan rate but not higher than the cost of production on marginal lands. We certainly should not induce more production; that would be perverse.

Call to action. It is important to note that any programs to ease the downside adjustment pressures (LDPs, marketing loans, AMTA payments, additional Congressional appropriations, or any other effort) frustrates the market and prevents the market from doing its thing—squeezing out land and causing the land to shift to a less intensive use.

It's entirely possible that none of this will be necessary—this time. With bad weather in South America, China, South Africa and Europe, we could see \$3 corn and \$8 soybeans in less than a year. On the other hand, we could be scraping by with \$1.30 corn and \$4.30 soybeans. We simply do not know which scenario will prevail. An economic downturn or a shift in

national priorities could reduce the willingness of Congress to provide huge subsidies to the agricultural sector.

Finally, the rapidly changing structure of agriculture means that aggressive efforts should be made by the federal government to assure price reporting on a mandatory basis where that is needed and to bring the focus of the antitrust agencies to bear on mergers, alliances and consolidations.

Therefore, the prudent approach would be to begin some contingency planning—just in case. After all, any fine tuning will require several months of deliberations in Congress. We can't very well wait until we're in the tank with no assistance forthcoming to begin thinking about options.

Some voice concerns over the impact of inventory management on exporting countries. It is believed that modest efforts to ease the downside pressures are unlikely to have an impact in exporting countries. Indeed, it appears that total crop acreage in Brazil and Argentina surged after 1996 compared to the 1990-1996 period when the U.S. was utilizing set-asides to balance demand and supply.

IV. A Global Food and Agriculture Policy

The globalization of food supply and demand and the position of the United States suggest that food and agriculture policy analysis should shift to a new level to encompass global food and agriculture issues. Such a policy would likely take years to accomplish and would require skillful diplomatic efforts, but the logic behind such an approach to policy is obvious.

A global food and agriculture policy should have several components—

- First, and probably foremost, is support for Third World economic development. With relatively high income elasticities of demand for food (70 percent or more of each additional dollar of income is likely to go for food purchases in some of the countries), it is clear that the last frontier for increasing food demand is the Third World. Moreover, adequate nutrition, worldwide, has the support of a wide array of groups and individuals.

If the poorest countries could be nudged into the development queue, with investment in education, health care and infra structure, the long-pursued goal of elimination of world hunger could be within reach. Gifting food to low income countries, while laudable from a humanitarian point of view, destroys their internal agricultural economy.

- The issue of food safety, including animal diseases as well as genetic modification of foods, should be addressed in a global food policy.

- Food security should be a component of a global policy.

- Fair and equitable sharing of germ plasm should be assured. This could help allay fears of some countries that their germ plasm is being appropriated without compensation by

First World countries.

- Trade in agricultural products and commodities is an obvious candidate for inclusion in a global food and agriculture policy as a supplement to negotiated trade agreements.
- Countries would be urged to take action in unison whenever disastrously low food prices occur worldwide with comparable steps taken to reduce food production. The flow of development funds from the United States into the World Bank and IMF and in the form of direct assistance could be used to leverage such responses from other countries.

V. An Appropriate Breadth for “Farm Policy”

Finally, for purposes of debate and discussion leading up to major farm legislation, and in the legislation itself, it is urged that “farm policy” be viewed more broadly than encompassing just the cost of food at the farm gate and the amount of resources required to produce that food. In addition, farm policy should be viewed as including—(1) environmental concerns, (2) structure of agriculture and agri business and (3) the impacts, social and economic, of proposed changes in farm policy on farmers, landowners, communities and agri business firms. The literature has come to be dominated by unacceptably narrow definitions of farm policy.

The Structural Transformation of the Agricultural Sector*

--by Neil E. Harl**

A major concern as we move into the Twenty-first Century is the structure of the agricultural sector. By structure, is meant considerations of size and scale as well as who is to manage, control and finance farming and agribusiness operations.

Structure of the Agricultural Sector

With the proportion of slaughter hogs sold under some type of marketing or production contract approaching 70 percent, and with feedlot marketings on a similar basis at high levels and rising, it is important to assess the implications for producers. Such a structural transformation of a subsector is not unknown—the broiler industry went that direction several decades ago—but it is a first for the Middle West.

The critical question: is it important to farmers—and to society—whether agriculture is populated by independent entrepreneurs or serfs? The structural change now occurring will determine which direction agriculture takes. A producer without meaningful competitive options is a relatively powerless pawn in the production process.

The evidence is overwhelming that the agricultural sector is undergoing the greatest structural transformation in the history of the sector. *Without much doubt, low commodity prices are contributing to the structural transformation of the sector.* A low risk, low return choice looks attractive if the alternative is bankruptcy.

Competition is the most critical element of a price oriented, market economy. Without competition, firms become complacent, are less likely to innovate, tend to become arrogant and indifferent and are inclined to produce less and obtain a higher price for their output.

To a considerable extent, structure will be driven by economic considerations. This country has been committed for some time to the notion that if someone can develop ways to produce goods or services at a lower cost, barriers are unlikely to be erected to prevent that from happening. In large part, the consumer is king and generally rewards the best value with purchases. However, for the economic system to function properly, it is critical to have—

- Policies in place to deal with cost externalities such as odors and stream and groundwater pollution, and
- A system of market protection (or antitrust) to penalize collusion and to prevent undue concentrations of economic power.

* Presented at Conference, "Fixing the Farm Bill," National Press Club, Washington, DC, March 27, 2001.

** Charles F. Curtiss Distinguished Professor in Agriculture and Professor of Economics, Iowa State University, Ames, IA; Member Iowa Bar.

The Era of Contract Agriculture

The signs of increasing use of contracts are commonplace—especially on the production side of agriculture.¹ Specialty grains, feeder livestock, milk production, even fruits and vegetables, are being produced under contract and have for some time. So what's the concern about the rising tide of contract agriculture? Basically, the concern is a tilt in market power with a possible shift in bargaining power as input suppliers and output processors (and first purchasers otherwise) gain greater economic power, undoubtedly at the expense of producers.²

Concentration in input supply and output processing companies. Mergers, alliances and various other types of arrangements are reducing the number of players in input supply and output processing and handling and increasing the level of concentration. While the level of mergers, alliances and consolidations is not a completely reliable indicator of competition, the fact that nearly \$15 billion of such amalgamations has occurred over the past five years in the seed business, some at price levels difficult to justify under present economic conditions, suggests that—(1) some are discounting revenue from a pot at the end of some unknown rainbow; (2) irrational behavior is being displayed; or (3) some acquiring firms are assuming that a greater share of the world's food bill can be claimed by those who control the germ plasm involved in food production.

Increasing levels of concentration among firms do not tell the entire story. The revolution in ownership of germ plasm, the feature of cells that determines the characteristics of offspring, also is moving rapidly toward concentration in a few hands. The high-profile alliance (and now merger) between DuPont and Pioneer Hi-Bred International, the Monsanto acquisition of DeKalb, the Monsanto acquisition of Delta and Pine Land Company (since terminated) and the formation of Syngenta by Novartis and Astrazeneca are recent examples of how the ownership and control of genetic material in crops are falling into the hands of a few, economically powerful players. Increased concentration is also leading to control by a few firms over the major processes by which genetic manipulation occurs, thus enabling those controlling the technologies to block use by other firms.

This development is partly related to the changing role of the land grant universities, partly to the ability in recent years to manipulate germ plasm through genetic engineering, and partly to the consequences of the ability to obtain a monopoly-like position over unique life forms and over the process of genetic manipulation.

- For decades the land grant universities developed the basic genetic lines and made those lines available to the seed industry. Because of limitations on university funding and the near-revolution in genetic engineering, the private sector several years ago began pouring more money into basic research. Developments have progressed to the point that the payoff from research and development funding can no longer be used to compare the present with prior periods. Payoffs are expected to flow more readily than when biotechnology was in its infancy.

¹ See, e.g., Harl and Lawrence, "Long-term Marketing Contracts with Packers...A Journey Through the Downside," *Iowa Pork Producer*, Sept., 1998, pp. 5-7.

² See generally Harl, "Contract Agriculture: Will It Tip the Balance?" 10 *Leopold Letter* No. 4 (1998); Harl, "Agriculture in the Twenty-First Century," <http://www.econ.iastate.edu/faculty/harl/papers>.

- The advent of genetic engineering meant that scientists could manipulate genetic composition—not through conventional crop breeding techniques but through laboratory procedures—to change the genetic makeup of plant and animal life. That has produced herbicide-resistant crops, for example.

- Finally, the U.S. Supreme Court in a 1980 landmark case determined that life forms could be patented.³ In addition to federal Plant Variety Protection (PVP)⁴ and simply shrouding research efforts with secrecy, the ability to patent life forms provides a powerful tool to keep competitors at bay.

While a major concern is over concentration in seeds and chemicals, there is also concern over concentration in livestock slaughter, grain handling and shipping, farm equipment manufacture and food retailing. Indeed, rapidly rising concentration in food retailing may be the most worrisome development in recent years.

Driving forces to consolidate. One of the drivers in the trend toward greater concentration in almost all sectors of the U.S. economy is increasing concentration in markets *into which products are being sold*. Thus, the rising tide of concentration in food retailing leads to consolidation by suppliers to match the buying power of the retailers. The driving force is an increase in negotiating power, not necessarily an increase in efficiency.

Example: In late July, 2000, the merger announcement by Pillsbury and General Mills noted that a major reason for the merger was to position the resulting firm to better do battle with the major players in food retailing. The importance of getting shelf space at the retail level is another critical factor in food production and distribution. Concentration in food retailing leads to concentration among those who sell to the big food retailers which leads to concentration among those to sell to those who sell to the big food retailers and so on down the scale to the powerless producer. In early 2001, the president of Tyson Foods was quoted as saying that the proposed merger with IBP “should give us 100 feet of shelf space at Wal-Mart.”

Just how concentrated is food retailing? In 1992, the five leading food retail chains controlled 19 percent of U.S. grocery sales. By 1998, the five largest chains (Safeway, Albertson’s, Kroger, Ahold and Wal-Mart) controlled about 33 percent of U.S. grocery sales with that figure at an estimated 42 percent in 2000. Unless mergers are curbed, that figure is expected to reach 60 percent within three years.

Effect of contracts. An important question is the effect concentration will likely have on contract negotiations with producers. It depends on the options open to producers who don’t like the terms of contracts offered to them. With numerous contract possibilities available from input suppliers, each offering inputs of roughly equal productivity and cost, the answer is perhaps “not much.”

³ *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (bacterium having unique genetic characteristics is patentable subject matter under the general patent statute). The scope of plant patenting goes back before the U.S. Supreme Court in the case of *Pioneer Hi-Bred International, Inc. v. J.E.M. Ag Supply*.

⁴ Pub. L. No. 91-577, 84 Stat. 1542 (1970), 7 U.S.C. §§ 2321-2581. See generally 12 Harl, *Agricultural Law Ch.* 110 (2000).

But if there are just a few options, with the next best offering a much less attractive set of inputs in terms of cost and productivity, such as when a variety of seed is developed with significant yield premium over otherwise competitive varieties, the answer is "take what you're offered." A greater proportion of the value of the yield premium is expected to be captured by the seed supplier under those conditions than has historically been the case. The outcome is likely to be a tilting in the terms of contracts in favor of the input supplier. The division of revenue from production would be expected to shift over time in favor of the party with the monopoly or near-monopoly position. Input suppliers can be expected to drive the best possible bargain which means, in the case of seed, capturing the greatest possible percentage of the value from any yield premium.

- The outcome would be a smaller share of the revenue from production going to the producer, resulting in less compensation to the producer and less to capitalize into land values.
- Seed companies, for example, would end up with a larger share of the pie with more to capitalize into the stock of the input supply firms. Even if unique corn derivatives produce revenue of \$2 million per acre, it's fairly clear that whomever holds the rights to the technology involved will capture the lion's share of the revenue, not the producer.

A good argument can be made that this perception of potential profits in the future is part of what was driving the intense push toward concentration in control over germ plasm.

Thus, a major issue is whether a shift in market power occurs between input suppliers and producers, whether that shift in market power is translated into enhanced bargaining power and whether the enhanced bargaining power is employed to siphon a greater proportion of the economic return generated by the sector into the hands of input suppliers.

Other shifts may follow. The negotiating power of seed firms could well have other impacts.

- In an effort to control the germ plasm more completely, seed companies are likely to negotiate for ownership of the product with the producer under contract having only a contract right to payment, short of ownership of the crop or livestock involved.
- Similarly, the contract may contain what would appear at first glance to be an attractive feature—the input supplier bearing the price risks.

These seemingly innocent shifts would mean, however, that the economic position of the producer would be transformed from that of a risk-taking entrepreneur into a relatively riskless world of fixed compensation. Thus, a shift not only of compensation would occur in favor of the input supplier but also a shift of management functions in the same direction. The outcome would be reminiscent of the limited role played by growers under broiler contracts.

Vertical integration. The moves made by the major players, both input suppliers and output processors and handlers, could lead one to conclude that the objective is to vertically integrate the sector. Such an objective could be pursued for several reasons—(1) to gain and maintain greater control over patented products or products subject to intellectual property protection otherwise; (2) to apply economic pressure on producers to relinquish functions in

favor of the integrator (such as risk management) or to merely provide an opportunity for risk to be off loaded onto the integrator; (3) to reduce costs (particularly acquisition costs for raw materials) of the integrating firm; (4) to achieve greater market share on an assured basis; or (5) to deliver with greater precision what consumers want. The latter point is debatable. In an early example, seed/chemical companies misjudged consumer acceptance of genetically engineered foods and stumbled badly in the process.

Although vertically integrating a sector or subsector may produce economies—including reduced costs for acquisition of raw materials—vertical integration by powerful integrators can have decidedly negative consequences. Among those negative outcomes is the demolition of open, transparent, competitive markets and replacement of those markets with negotiated prices. With a huge difference in bargaining power, as between the parties, the outcome is predictable. The party with the weaker market power tends to be the loser. Unless producers act collectively, producers tend to be the weaker party.

Are economies from vertical integration likely to be passed on to consumers? With a high level of concentration, that's doubtful. Actually, several possible outcomes could be occurring in the merger/vertical integration movement.

- If the structural transformation now being observed reflects efficiencies, lower costs could be passed to consumers if competition is present and the competitive system is functioning well.
- In the event gains from efficiency are not passed to consumers, but are passed to shareholders or used to pad costs within the firm, the trend is objectionable even though some would argue that system-wide gains in efficiency should be permitted even in the face of anti-competitive conditions.
- The third scenario, which is concerned with the distributional effects of competition policy, does not recognize gains from efficiency as a positive offset to an otherwise anti-competitive merger unless the gains are passed on to consumers.

Clearly, the higher the level of concentration and vertical integration, the greater the risk of unacceptable market conduct.

The "deadly combination." Without much doubt, the greatest economic threat to farmers as independent entrepreneurs is the deadly combination of concentration and vertical integration. Producers are vulnerable to a combination of high levels of concentration in input supply and output processing and high levels of vertical integration from the top down.

Example: let's assume concentration in hog slaughter continues to increase (the four largest firms now control about 60 percent of hog slaughter compared to more than 80 percent for steer and heifer slaughter, as shown in Table 1.) and the hog slaughtering firms vertically integrate in the manner pioneered by Smithfield. Before dropping the Tyson merger, Smithfield would have controlled about 68 percent of its hog slaughter. Let's say we're down to two huge firms and each is 90 percent integrated. A producer with a five year contract with one of the two major firms comes to the end of the contract. The new contract is considerably less attractive

Table 1. Four Firm Packer Concentration Ratios (in percent)

<u>Year</u>	<u>Cattle</u>	<u>Steer & Heifers</u>	<u>Cows/Bulls</u>	<u>Hogs</u>
1980	28	36	10	34
1985	39	50	17	32
1990	42	55	18	33
1995	69	81	28	46
1996	66	79	29	55
1997	68	80	31	54
1998	70	81	33	56
1999	70	81	32	56

Source: International Agricultural Trade and Development Center, University of Florida.

than the expiring contract. The producer is told—take it or leave it. If the closest competitive option is 900 miles away—and is also heavily integrated—the producer seeking another option for hogs is highly vulnerable. If the producer had made a heavy commitment to facilities, the vulnerability is greater yet with significant barriers to exit. Clearly, a producer in that situation is likely to be squeezed.

In short, whoever controls the limiting factor in any process is in a position to exert influence over the entire process and, if the level of concentration is high, exact a hefty charge against the fruits of production. In hogs the limiting factor is not capital, or labor or buildings; the limiting factor is slaughter capacity or “shacklespace.” In food generally, an important limiting factor is shelf space.

Another dimension of concern in terms of the “deadly combination of concentration and vertical integration” is captive supplies of livestock. These are arrangements used by packers to obtain livestock two or more weeks prior to slaughter by way of forward contracting, marketing agreements and packer-fed cattle. It has been estimated that a one percent increase in a packer’s inventory of forward contracted cattle on any given day is associated with lower prices (3 to 5 cents per hundredweight) paid for cattle in the cash market. With captive supplies running as high as 70 percent in some weeks, the economic impact could be as high as \$25 to \$50 per head of cattle sold.⁵

Is this any different from vertical integration in the automobile industry, for example? The answer is yes. Producers of farm products are so numerous, even yet, that a vertically integrated packer can terminate one or even several with no concern about an adequate supply of animals. That is not the case with most suppliers in other vertically integrated sectors of the economy.

What all of this adds up to is this—if farming is to be made up of independent entrepreneurs as producers, it is absolutely essential for producers to be assured of meaningful

⁵ See Grain Inspection, Packers and Stockyards Administration, U.S. Department of Agriculture, “Concentration in the Red Meat Packing Industry,” February, 1996.

competitive options. To assure that outcome, it is necessary to—(1) limit concentration in input supply and output processing or handling and (2) possibly limit the extent of vertical integration.

Barriers to entry. In general, one would expect high handed economic behavior by near monopolists to be met by entry of new competitors attracted by the generous terms of contracts in favor of the input suppliers. And that would likely occur if entry were possible. However, barriers to entry may be fairly high.

- One barrier is capital needed to mount the kind of research effort needed to maintain a product flow similar to that of the firms pressing for monopoly-like concentration levels. The capital needed is very substantial.

- Also, in the seed/chemical industry, existing patent and plant variety protection may mean that potential competitors are frozen out of competition as a practical matter for the duration of the patent or PVP certificates or the duration of a patent over processes by which genetic manipulation occurs.

Reform of contract practices. The great disparity in market power tends to lead to contracts with oppressive features (as viewed by the weaker party), retaliatory practices by the stronger party and vulnerability of the weaker party in terms of securing payment. The Producer Protection Act, which has been proposed and endorsed by 17 State Attorneys General, would take several steps as a matter of state law towards providing full information to the producer and lien protection to the producer to secure payment of amounts due and reducing the probabilities of economic retaliation in producer-processor contract relationships.

The proposed legislation contains six parts—

- Require contracts to be stated in plain language and disclose material risks;
- Provide contract producers with a right to review and a three-day cancellation period;
- Prohibit confidentiality clauses;
- Provide producers with a first priority lien for payments due under the contract;
- Prevent capricious or retaliatory termination of the contract; and
- Prevent retaliation against producers who participate in producer organizations.

Although the proposal has been criticized,⁶ the provisions all have precedent in other areas of the law, such as consumer protection legislation and trade regulation, and all are based on basic principles of fairness, full information and equity which are common throughout the law.⁷

Position of Small Firms

A major issue is whether smaller input (and processing and handling) firms are likely to be able to compete. Certainly the small seed firms have remained surprisingly healthy in recent

⁶ See Boehlje, Schrader, Hurt, Foster and Pritchett, "The Producer Protection Act—Will It Protect Producers?" 18 *Agric. Law Update* No. 2, pp. 4-6 (2001).

⁷ See Harl, Stumo, McEowen, Heffernan and O'Brien, "The Producer Protection Act—Will It Protect Producers? A Rejoinder," 18 *Agric. Law Update* No. 3, pp. 1-7 (2001).

decades as performance traits of the varieties and hybrids developed by the larger firms have tended to outdistance the performance of seed marketed by small firms.

But the era of transgenic hybrids produces both the incentive to maintain greater control over high performing germ plasm and the technology and resources to challenge those who manage to obtain the germ plasm in clandestine ways. The larger firms may acquire some smaller firms to complete their distribution network and licensing germ plasm for a fee may well occur. However, it is unlikely that the dominant firms will generate additional competition by licensing to smaller firms.

Indeed, with the smaller firms predictably unable to maintain access to higher performing germ plasm, the price of lower performing seed varieties and hybrids is expected to reflect the economic disadvantage inherent in the lower performing varieties. At some point, many if not most of the smaller seed firms that are unaligned with the dominant firms will be unable to survive economically.

Antitrust Surveillance

Another possible area of protection against a sharp tilt in the economic terms of contracts is vigilance by federal (or state) anti-trust agencies. Certainly the Federal Trade Commission and the U.S. Department of Justice should be sensitized to the potential for economic abuses down the road.

Further consolidation in any highly concentrated sector merits scrutiny under the Clayton Act rules that impose limits on mergers expected substantially to diminish competition. So-called horizontal mergers or mergers of competitors are the most likely to be challenged. Other areas of antitrust challenge involve production, including price fixing, agreements to divide markets and group economic boycotts. These are all per se offenses under federal antitrust law.

It's been well established for decades that firms with monopoly power over a product should not be able to "tie" other products to the transaction and extend the monopoly position.⁸ Such contracts are used to create "economic leverage" by using monopoly power in one market (the market for the tying good) to create monopoly power in a second market (the market for the tied good). Such arrangements, which involve tying products over which a firm does not have monopoly power (such as financing, insurance or risk management) to a product over which the firm does have monopoly power (such as a seed variety), are also illegal per se unless it can be demonstrated that the product in monopoly status wouldn't work as well with other firms' products. And, that is rarely the case.

Some economists have criticized the antitrust treatment of tying contracts as not leading to economic leverage in all instances.⁹

If the objective is to maintain significant levels of competition, FTC and the Department of Justice should scrutinize all agri-business mergers carefully for anti-competitive consequences from the standpoint of producers (as well as consumers) and all practices by companies in tying

⁸ See generally Neale, *The Antitrust Laws of the United States of America* Ch. XI (2d ed. 1970).

⁹ See Warren, *Antitrust in Theory and Practice* 192-202 (1974).

credit, insurance, risk management or other needed inputs to potential items. One problem in relying on FTC or the Department of Justice is that both agencies seem to believe that the agriculture is the last bastion of perfect competition and is competitive by a comfortable margin. The problem is not one of diminished competition among producers but among those who supply inputs and process or handle products from the producing subsector.

The approaches used by the Antitrust Division of the Department of Justice and by the Federal Trade Commission (FTC) in analyzing mergers have traditionally focused on the probable impact on consumers. That has been the principal concern of the antitrust system. For agriculture, however, the concern is the impact on *producers*—assuring producers competitive options. Consumers may ultimately be affected but that is down the road. That's why a different approach is needed in the evaluation of agribusiness mergers if there is a shared vision of maintaining a sector of independent entrepreneurs as producers. Unless that vision is articulated by the Congress and the Administration, the chances of meaningful actions by the antitrust system are slight.

Solutions

If sufficient public interest and political will are generated, three solutions seem to lie within the feasible set.

Antitrust oversight. First, aggressive antitrust oversight at the federal level (and among the states) is the traditional way for proposed mergers and alliances, tying contracts and other anti-competitive practices to be evaluated on the basis of potential anti-competitive effects. The objective should be to insure that all sectors and subsectors have equal, and low, economic power. Because of the importance of food and the policy significance of maintaining a healthy producing sector, it may be necessary for the Department of Justice to be funded specifically to maintain a substantially higher level of oversight over structural shifts in food and agriculture.

Collective action by farmers. One possible strategy for farmers is to forge alliances among producers (which is specifically allowed by federal law so long as it does not "unduly enhance" price).¹⁰ The push to achieve such countervailing power was the driving force behind the formation of labor unions a century ago. Historically, however, farmers have been unwilling to accept such a disciplined approach to achieving bargaining power.

Section 1 of the Capper-Volstead Act of 1922¹¹ provides protection from antitrust challenge for producers who seek to bargain collectively with processors, handlers and input suppliers.¹² The Capper-Volstead Act provides that "persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers, may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged."¹³ The Act goes on to allow "Associations [to] have

¹⁰ Capper-Volstead Act, 7 U.S.C. §§ 291, 292. See generally 14 Harl. *Agricultural Law* § 137.04 (2000).

¹¹ 7 U.S.C. §§ 291, 292.

¹² See generally 14 Harl. *Agricultural Law* § 137.04 (2000).

¹³ 7 U.S.C. § 291. See *Green v. Associated Milk Producers, Inc.*, 692 F.2d 1153 (8th Cir. 1982) (transportation of milk is handling activity protected by Capper-Volstead Act; employees of dairy cooperative acting within scope of

marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes."¹⁴

To come within the protection of the Capper-Volstead Act, an organization must—(1) be operated for the mutual benefit of its members; (2) either limit each member to one vote regardless of the amount of stock or membership capital the member owns or, if dividends are paid on the basis of members' stock or membership capital, the dividends must be limited to a maximum of eight per cent per annum; (3) not handle a greater amount of products from nonmembers than from members; and (4) not be operated for profit.¹⁵

The grant of immunity from antitrust challenge was further limited by a provision that if the Secretary of Agriculture finds that an association "monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby he shall issue...an order...directing such association to cease and desist from monopolization and restraint of trade."¹⁶

The key question is whether producers will be willing to sacrifice independence of action in order to bargain collectively for access to inputs and for greater market power in marketing their products. The most likely avenue for such collective action is through organizations specifically created for that purpose.

The time may be near when that will be the only practical alternative to vulnerability and serfdom.

A level playing field. The provisions in the Producer Protection Act, proposed by 17 State Attorneys General, would constitute a modest first step toward leveling the field of contracting. Indeed, serious consideration should be given to adding such provisions to federal antitrust law.

More germ plasm in the public domain. Another potential solution for concentration in seed supply is for the public to increase its support for crop breeding by land-grant universities and other public agencies with transgenic hybrids and varieties made available to smaller seed companies. This would restore the land grant universities to the role played before the advent of genetic manipulation and the dramatic increase in private sector funding for new varieties and hybrids to the extent that public funds are used, however, the results should be in the public domain.

To a considerable extent, this possible outcome is dependent upon the perception in state legislatures and the Congress as to the public interest, long-term, in maintaining a greater degree of competition in seed supply. Legislative bodies are more likely to respond if convinced that

their authority could not be guilty of conspiracy with cooperative because employees and cooperative are part of same entity; cooperative members and cooperative are considered one entity and incapable of conspiring with each other).

¹⁴ 7 U.S.C. § 291.

¹⁵ *Id.*

¹⁶ 7 U.S.C. § 292.

dominance of seed supply by a few large firms, worldwide, could affect food costs by influencing the supply of food through contractual mechanisms.

Role of Institutions

Arguably what is likely to emerge over the next few years is a heightened awareness of the efficacy of institutions in limiting or constraining economic activity. To the extent that institutional intervention is successful, a major concern is how to keep institutions in adjustment with changing economic circumstances. Markets reflect changes day by day, minute by minute. Yet, institutions tend to remain in place, frequently producing economic rents for some, until sufficient momentum is generated to effect change. To a considerable degree, institutions limit (as well as facilitate) market operations but without the same self-adjusting features as markets.

In Conclusion

To a disturbing degree, what is happening involves market power and the exploitation of that power. The key issues, at the moment, are what type of producing sector is in the long-run best interests of consumers—and others, and whether U.S. agriculture is to be populated by producers who are independent entrepreneurs or serfs.

In the meantime, the prudent course would suggest careful evaluation of mergers and alliances now occurring in rapid succession and careful consideration of the level of resources flowing into the development of transgenic hybrids and varieties in the public domain.

**STATEMENT TO THE
UNITED STATES SENATE COMMITTEE
ON
AGRICULTURE, NUTRITION AND FORESTRY**

**SUBMITTED BY:
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I appreciate the opportunity to present testimony to the United States Senate Committee on Agriculture, Nutrition and Forestry regarding the future of the farm bill and other agricultural and rural related issues. As Executive Director of Seasons Center for Community Mental Health, serving eight counties in Northwest Iowa, I am in a unique position to see the consequences of major policy changes upon the citizenry of rural people. Changes in federal programs, as well as policy shifts, have consequences to real people and actual communities. Often these consequences are disregarded in both the planning and transition process thus creating the potential for problems. The continuing uncertainty regarding the state of the farm bill, as well as recent reports of mad cow disease and related disorders in livestock, will continue to take its toll on farm families and rural communities. As a mental health professional with over twenty years experience in response to agricultural dislocations, I believe that unless there is a way to stabilize farm income as well as income related to agricultural business, there will be a toll on the health and well being of rural citizens. We would anticipate that the human consequences will be related to increased suicide rates, family separations as well as increased mental health concerns of children who are often the family symptom bearers.

RURAL MENTAL HEALTH SCENARIOS

The following antidotal cases depict the faces behind the increasing mental health numbers.

- ❖ A 17 year old is referred by her school. Once an honor student, she is depressed, doesn't communicate and refuses to respond to family and peer interventions. After almost an hour with a counselor, she only responds when the therapist says, "I hear your father is a farmer". Fortunately a hospitalization could be averted with medication assistance and counseling. The family refused to apply for any financial assistance and ended up selling a family antique china cabinet to pay for services.
- ❖ Farmer in his 70's spoke in a public meeting in one of the western counties of the state deeply distressed because his son had been hospitalized in the 80's during the first farm crisis and was very fragile right now. The farmer talked of using his monies for retirement to help the son with a contract hog operation because of his concern about relapse.
- ❖ A small businessman accesses service in the Center because his business has dried up completely since farmers are not spending money. The family business has been a part of his life for over 20 years.
- ❖ Schools report increases in behavioral problems of youth. Once the child is in therapy, it is clear that even though the farm crisis was not the defined mental health stressor, it is a foundation of current stressors in which children are symptom bearers.
- ❖ The Triage Department of Seasons Center reports high numbers of suicidal ideation among youth between the ages of 13 and 15. Much time and effort is spent coordinating supports and maintaining consultations to avert crisis.
- ❖ A wife brings her depressed husband to a mental health center because he has stopped eating and refuses contact with community members since a machinery sale. He has been able to be stabilized because of counseling and appropriate levels of medication. Sample medications were provided because the family had no monies to pay for the prescription.
- ❖ On Wednesday of this week a farm family canceled a therapy appointment for their suicidal 14 year old daughter because they are unable to pay for visits to the psychiatrist, medication costs and therapy appointments. They will maintain care through the psychiatrist and medication as long as they can but are fearful of acquiring any more bills that they are unable to pay despite being offered very generous payment plans. The family is ineligible for state Medicaid program, is \$12 over the limit for the state supported insurance program for

children, options for coverage of medical costs are limited to the family divorcing, giving up a job at the grocery store for minimum wage or limiting recommended care.

During the last few years there has been duress in the rural economy. These fiscal stresses have caused a 12% increase in service requests as well as a 25% increase in emergency calls that are agriculturally or small business related at Seasons Center for Community Mental Health. Our Center receives approximately 140 emergency calls per month for a population base of 108,000. When a call is classified as an emergency it means that the caller is high risk for a life threatening situation to themselves or others. The Rural Concerns Hot Line, a State sponsored service, has also experienced an increase in mental health calls. It appears that what is happening in Northwest Iowa is occurring throughout the State of Iowa.

Clinicians at Seasons Center have found that in half of the individuals who come in for marital therapy, the mental health concern is not the condition of the marriage, but depression that has been caused by chronic unremitting stress or grief issues associated with losses within the rural family.

A meeting was held less than two weeks ago in Spencer, Iowa, sponsored by AgriSafe of Spencer Hospital, with funds received through a Federal Rural Health Network Grant. This was attended by families from nine counties in Northwest Iowa, providing an opportunity for participants to rank health concerns. In a survey category related to health issues participants indicated stress as being the first priority and mental health issues ranked second for both adult men and women. Participants indicated physical abuse as primary concern and lack of insurance coverage ranked second for children under the age of twelve. What is surprising about these results is that mental health concerns are rarely ranked high for rural individuals because of both cultural factors and issues of stigma.

We have found that many of these families fall into categories where they are ineligible for any financial assistance to pay for medical needs for mental health services. Families are forced into the position of considering quitting part-time jobs to be eligible for services, changing their marital status, going without counseling services or limiting the number of counseling sessions out of fear of inability to make payment. Medication costs are prohibitive. While drug companies may provide assistance through an indigent drug program, the prescribed drugs may not be available. We have found in many cases that costs for services have no payment source.

Recent appropriations to assist with education and mental health costs, through a grant to the Extension Service, will assist to some degree. But the health care system will be unable to adequately respond to the needs of individuals and families in our community until basic flaws in the health care system are addressed. Systemic flaws in basic funding make it difficult for a rural provider to meet basic health needs. These include:

- ❖ Lack of adequate reimbursement in the Medicare/Medicaid system. Payments from Medicare/Medicaid called for \$467,158.14* in adjustments in a twelve county area covered by two mental health centers. Had reimbursements for services been adequate, we would have had the capacity to meet emerging mental health needs in our rural community. Such adjustments mean that we have a limited and an almost non-existent capacity to respond to structural losses and dislocations. Someone subsidizes these adjustments, either by private pay, the county, the state or insurance companies. These adjustments force the costs of basic health services to be higher for other payment groups.
- ❖ Requirements for having a doctor on premises for "incident to" services cripple an organization's ability to respond to needs. Essentially all of Iowa is in a mental health shortage area. We are in a position where we cannot meet the Federal requirements for reimbursements because we do not have physician availability.
- ❖ Lack of parity for mental health services again forces the rates to be higher. Parity for mental health coverage is essential. In many ways health care providers are like farmers. We are told what we will be reimbursed for services/goods provided, rather than being able to set the price for our services at costs.
- ❖ Loan repayment through the National Service Core is inadequate. Applicants for loan repayment programs through the National Service Core and through state programs such as Primecare far exceed the availability of funds. Practitioners cannot afford to come to rural areas to serve where wages are lower when they have large student loans to repay. The fact that loan repayment funds are taxable puts a further unmanageable stress on practitioners who have a real desire to practice in under served areas.

RECOMMENDATIONS

The following recommendations are respectfully submitted for consideration:

- ❖ Consideration be given to cost based reimbursement for mental health services as it is in rural health clinics, either through cooperative partnerships or subcontracts.
- ❖ Reconsideration needs to be given to redefining reimbursement for "incident to" services in health shortage areas.
- ❖ Health care reform is critical, both to ensure coverage for all Americans, as well as parity for mental health services.
- ❖ Tax relief for loan repayment programs through the National Service Core as well as consideration of additional loan repayment options.
- ❖ Any funds appropriated for mental health care need to be allocated to cover co-pays and deductibles for those who have insurance in order to ensure early access to care provided.
- ❖ Continued support for Rural Health Network Grants and Rural Health Outreach Grants.
- ❖ Administrative costs for any services need to be limited to not more than 10% of the appropriation. Such a condition would ensure that allocated funds would cover services to families.

*Adjustment Figures Chart - 12 Northwest Iowa Counties

ADJUSTMENTS BY COUNTY FOR PERIODS COVERING:
JANUARY 1, 2000 THROUGH DECEMBER 31, 2000

COUNTY	MEDICARE ADJUSTMENTS	CONSULTEC ADJUSTMENTS	MBC ADJUSTMENTS	TOTAL
CLAY	11,728.22	82.34	17,132.94	28,943.50
BUENA VISTA	4,226.08	183.62	17,631.43	21,771.13
DICKINSON	6,498.97	-0-	16,079.89	22,578.86
EMMET	4,726.05	275.66	18,657.59	23,659.30
LYON	1,754.14	99.92	15,908.54	17,762.60
O'BRIEN	12,660.05	-0-	21,573.72	34,233.77
OSCEOLA	4,464.30	211.02	9,691.50	14,366.82
PALO ALTO	6,539.30	289.69	3,847.11	10,676.10
PLYMOUTH	19,811.43	7,066.43	58,255.28	85,132.84
CHEROKEE	7,251.12	16,399.82	65,088.39	88,739.33
IDA	2,653.40	8,341.22	23,329.70	34,324.32
SIOUX	20,762.00	6,346.05	57,861.52	84,969.57
TOTALS	103,075.06	39,295.47	324,787.61	467,158.14

**FOR RELEASE ONLY BY THE SENATE COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY**

Statement of Don Mason
President-Elect
Iowa Corn Growers Association
before the
Senate Committee on Agriculture, Nutrition, and Forestry

Saturday, March 24, 2001
Spencer, Iowa

Good morning, and thank you, Mr. Chairman for offering my organization this opportunity to testify in front of the Committee to present our views on the direction of American farm policy. My name is Don Mason, and as you know, I farm about 800 acres of corn and soybeans in Nemaha, just 45 minutes from here. I like to joke that in my spare time, I also have 5,500 hogs. I am the President-Elect of the Iowa Corn Growers Association, a farm organization here in Iowa that represents over 6,000 growers. I am a former Peace Corps volunteer, and I have seen quite a bit of the world, but even when I was overseas, I always yearned to come home and get my hands back into the soil. Mr. Chairman, I'd like to give my son and daughter a chance to get their hands in the soil.

I am reminded of a comment I heard some time ago with regard to Farm Policy that I think is very applicable in this situation. A former Secretary of Agriculture asked a group of farmers what direction they hoped that Congress and the Administration would take with the farm bill. One farmer stood up and said "Mr. Secretary, I'd sure like you to work together to create a farm bill that would help me thrive, not just survive." I think that this is very aptly put, Mr. Chairman. I would sure like to see a process that encourages Iowa's farmers to thrive, not to just survive.

I believe that the process that you, Chairman Lugar, and your counterparts in the House have laid out will bring all commodity groups to the table to have a fruitful and honest discussion of where we will go next.

Last year, U.S. farmers experienced the lowest corn prices in more than a decade; the lowest wheat prices in 8 years; the lowest soybean prices in nearly 30 years; and the steepest decline in milk prices in history.

But why is the farm economy in crisis? Can you lay the blame on the Federal Agriculture Improvement Act and Reform of 1996? No, in large part, the crisis is being fueled by four consecutive years of record global grain production and weak export demand-both of which are beyond the scope of the 1996 Act. U.S. agricultural exports are projected to be only considerably lower this fiscal year after reaching a record high of nearly \$60 billion in fiscal year 1996. Large global production, the Asian and Russian economic crises, and a strengthening dollar, have all contributed to a weakening in our exports.

We do support the underlying principal of the 1996 bill: we like the ability to plant what we choose, and what the market demands; to let the market help us make the decisions on the farm, rather than our decisions be driven by a faceless bureaucrat in Washington. This flexibility has helped us boost domestic consumption of corn by over a half billion bushels since 1996, and over 200 million more to our export markets.

The more appropriate question is: Is the 1996 Act doing what farm policy should to help deal with the problem and help with the recovery? Clearly the answer to that question is no.

I won't delineate all of the "supplemental emergency titles" that Congress has had to enact since passage of the 1996 bill, except to comment on the fundamental shift that we find quite troubling. That is, the amount of our net farm income that comes directly from the government. As you can see from our chart, the amount of government assistance as a percentage of U.S. net farm income has risen exponentially over the past four years. I believe that if you talk to most farmers, and certainly not just corn growers, they'll tell you that we want to make our income from the market – not the government.

[Chart: Government Assistance to Farmers]

Principles that lay a solid framework for reform

Having said that, I'd like to share with you our vision for agriculture policy. Our discussion of farm policy is guided these eight fundamental principles:

- That agricultural policy should not artificially impact land values and stimulate over production around the world;
- The federal government should not guarantee a profit, but it should help manage risk;
- Agricultural policy should continue and expand environmental programs such as CRP. Payments for conservation practices should be fully supported and liberally funded;
- Policies should promote value-added processing of commodities, including ethanol;
- Policies should retain the planting flexibility of Freedom to Farm
- Policies should make a commitment to reducing trade barriers and sanctions;
- Policies should be directed to improving our infrastructure such as upgrading the lock and dam system on the Mississippi River;

- Policies should support research, development, and marketing programs for commodities

Counter-cyclical Assistance

After weighing all of these needs and concerns, including addressing the need for a safety net to deal with price down turns and disasters, we also believe that a component of the new farm bill should be a system of counter-cyclical payments. Our group is currently considering a proposal to create such a payment, and we are hopeful that our national President will be able to present NCGA's findings to the House Agriculture Committee by the end of April. We have noted with great interest the variety of proposals already presented by farm organizations, and we look forward to the opportunity to present our views to this committee in the near future.

Conservation Initiatives

The Iowa Corn Growers Association believes that any reform initiatives should promote conservation. We see considerable promise in your bill, the Conservation Security Act, Mr. Chairman. We are committed to the voluntary nature of conservation, and we applaud your efforts to reward producers for the conservation practices that they have undertaken on their own initiative. I believe that you will agree that the impact we will have as responsible stewards of the land, will only be bolstered by such a provision.

Trade Policy

We also believe that we should continue our efforts to eliminate trade barriers and honor our commitment to the WTO negotiations. Member countries are meeting their commitments to reduce support from those domestic agricultural policies deemed to have the largest effect on production (amber box policies). However, domestic programs thought to have the least impact on production (green box policies) have increased. Therefore, we oppose policies that will continue to directly interfere with the WTO and stimulate over production.

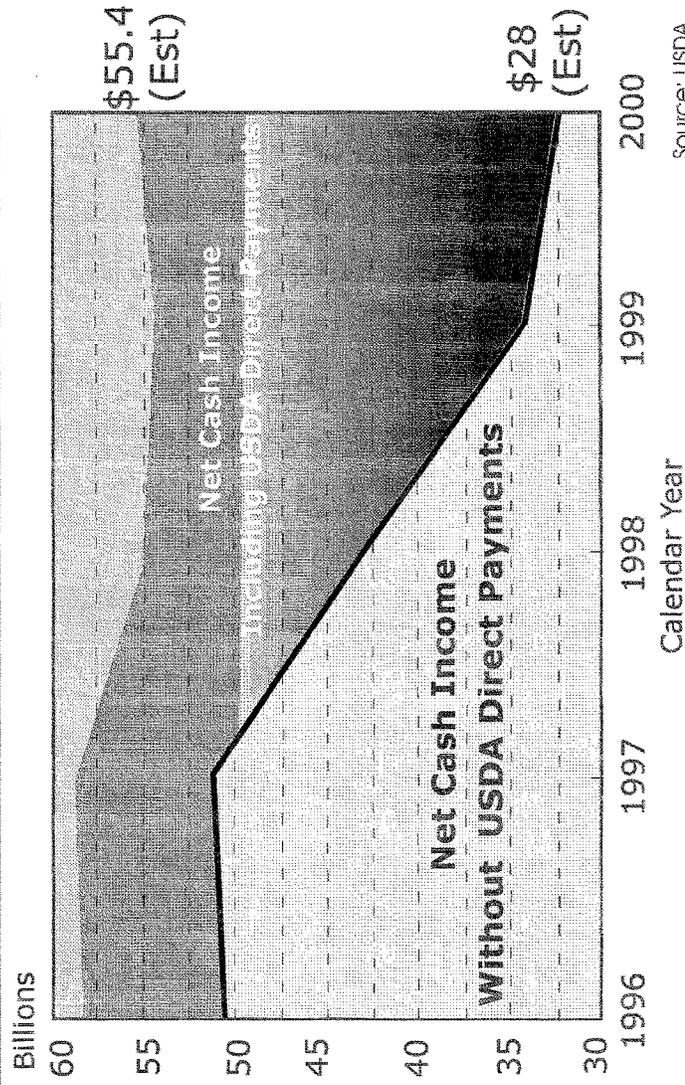
Conclusion

Given various proposals presented by the farm organizations to address the problems of the farm economy, I remain hopeful that we will be able to reach consensus on the farm bill. But, to paraphrase Robert Frost, "we have miles to go before we sleep." I am also hopeful that the farm bill process continues to be conducted in such a way as to promote a thoughtful dialogue about where we need to go next.

Mr. Chairman, I look forward to working with you to define proposals in the farm bill that will help Iowa's farmers to thrive, not just survive. I commend your work on this committee, and appreciate this opportunity to express our Association's views. I would be happy to answer any questions that you might have.



Government Assistance to Farmers: 1996-2000



Source: USDA

**United States Senate Committee on Agriculture, Nutrition and
Forestry hearing,
Saturday, March 24, 2001, Spencer, Iowa**

**Testimony of Mark H. Hamilton
Publisher, Times-Citizen Newspapers of Iowa Falls, IA, and
Secretary/Treasurer of Positively Iowa**

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I understand much of your deliberations revolve around agriculture and how to assure its future. But I want to discuss a serious threat to agriculture's future and to Iowa's future that goes well beyond farming.

Rural Iowa as a whole is dying. There is a relentless geographic cleansing that is going on in more than half of Iowa that not only threatens the existence of communities, but also endangers Iowa cities and farming as an industry.

A quick look at only a couple of demographic trends tells us that mathematically the rural Iowa population base cannot sustain itself. The fact that in over half of Iowa's counties more local people are dying than being born makes the statistical case of the present state of the terminal disease.

The fact that the median age in most rural Iowa counties is racing toward 40 years of age and beyond predicts the future course of the disease under current policy.

The farming industry and Iowa cities seriously underestimate the damage to their interests if rural communities are allowed to decline. In agriculture where off-farm income is becoming a more necessary component to financial success, rural non-agricultural jobs are becoming fewer and farther from the farm. Cities, which sometimes view rural communities as unworthy competitors for development resources, fail to recognize the traditional source of their growing labor needs. In the last period for which census data is available, more than half of Iowa's urban growth was possible because young, educated workers came from rural areas to fill the jobs.

Clearly, the demographics of the existing indigenous rural population dictate de-population. A resettling of rural Iowa must occur. The question is under what set of policies and goals will that resettlement occur. The current policy record has produced a low-skill, low wage resettlement result - jobs our own state college graduates don't find acceptable. Different initiatives can drive a more attractive and more acceptable route to resettlement.

I have four suggestions I would like to briefly bring to your attention. The issues of smart, coordinated rural development involve four basic needs:

1. Better support structure for competent, professional developers at the local level
2. Financial resources for local development
3. Multi-state alliances, and
4. A constant source and communication vehicle for research based on local input.

1. In the area of competent, professional developers at the local level, I call your attention to recent comments by Randy Pilkington, Director of the University of Northern Iowa's Institute for Decision-Making. He said:

"Rural communities have many well-intentioned volunteers, but they typically lack the expertise and resources to implement aggressive economic development initiatives."

I submit that the National Main Street and Main Street Iowa model has been, by far, the most effective program for rural Iowa communities that I have seen in the last 20 years. It saved downtown Iowa Falls and many other Iowa downtowns as well.

The model requires local financial and human commitment and leverages that with state and federal training, expertise and matching financial support. It also requires the local communities to follow tested development models if they want to participate. I suggest you look to that model in the area of rural economic development.

2. The financial resources for local development present interesting challenges and interesting opportunities. When we talk about rural problems, we often hear about rural poverty. What is more crucial to this discussion is the staggering level of rural wealth. Sixty percent of Iowa farmland is debt-free. That translates to \$35 billion in unencumbered assets. Most of this is held by individuals age 55 and older.

If a company were worrying about its future and seeking ways to retool and diversify to make jobs for young people, it would undoubtedly look to its strong balance sheet and strong collateral position and use that strength to invest in its future.

Not being a 55-year-old farmer with this level of unencumbered assets, I can't say what changes in tax law or other incentives would prompt me to reinvest a small portion of my assets in local development. But there must be incentives to move just 10 percent of those assets into a pooled, risk-shared system to resettle rural Iowa with good, high skilled jobs. You need financial and tax experts to take a close look that this. Local banks are required to invest locally through the Community Reinvestment Act, why not farmers as well?

We offer farmers all kinds of incentives to treat their land in the public interest. Why not expand that concept to the use of their government-created wealth for greater public good?

3. One of the most difficult hurdles for local communities to overcome is the 150-year old definition of community boundaries that were made for a horse-and-buggy economy. The state of Iowa and its neighboring states may suffer in much the same way. Regional coordination of state and federal laws and regulations could be improved among the north central states in a number of areas, including business development, value-added agriculture, telecommunications, health care, distance education and transportation to name a few. A joint effort among neighboring states pointing toward reduction of jurisdictional barriers would be productive and worthwhile for rural revitalization. We ask communities to look beyond their boundaries for improved alliances and economies of scale. The states in the region should do the same thing.

Northern Great Plains, Inc., a five-state regional non-profit rural development organization, which I believe, Senator Harkin, you were instrumental in creating back in 1994, is bringing out recommendations on such a project next week. I think it will be worthy of serious Congressional consideration

4. How do you coordinate a sensible, efficient approach to resettlement of rural Iowa? This is where I think real, effective, affordable progress can be made immediately. Our organization, Positively Iowa, has led a private sector, grass roots issue development process for the last six years.

Our single goal now is the creation of a Center for Community Vitality for Iowa. The Iowa 2010 Strategic Planning Council proposed this idea. Iowa State University Extension and the College of Agriculture have endorsed the concept. The center can be modeled after the Leopold Center for Sustainable Agriculture. It would be unique in that rural leadership that is actually working in the rural development trenches will guide it in concert with existing academic and development organizations.

I am suggesting a decision-making body which might be called the "Rural Regents." It could direct and coordinate rural research and communication and really offer rural areas the information and resources needed to make better decisions as they chart their own routes to diversification beyond agriculture.

This center could lead the research, dialogue and deployment of resources to make better, more coordinated decisions. I believe an appropriation of no more than \$1,000,000 could establish this center.

The Iowa legislature is currently considering a resolution of support. I hope you can give this final recommendation your careful consideration.

The job of bringing back rural Iowa gets harder with each passing day. The Center for Community Vitality is an idea whose time has come today. Thank you for your consideration.

BACKGROUND AND DETAIL ON CENTER FOR COMMUNITY VITALITY:

The Iowa Center for Community Vitality

"To be prosperous and competitive in the next century, Iowa must not only possess a strong agricultural economy and metropolitan commercial centers, it must also have a vital network of rural communities and a vital rural economy."

-- Iowa 2010 Commission

One of the primary goals established by the Iowa 2010 Commission is to "Implement strategies and policies to retain Iowans and encourage Iowans living elsewhere to return..." One of the strategies recommended to achieve this goal is to: Develop a Center for Rural Vitality to strengthen smaller communities.

THE POSITIVELY IOWA ORGANIZATION

Positively Iowa was established in 1995 by a consortium of statewide organizations that serve rural communities. The founders of Positively Iowa sought to find a new approach to addressing critical concerns prevalent in Iowa's communities, rural areas and inner cities. Recognizing the challenge of assisting communities and rural areas with out-migration, declining employment base, and deteriorating infrastructures, as well as other critical issues, Positively Iowa is working on behalf of Iowa to establish the Iowa Center for Community Vitality.

THE ISSUE TO ADDRESS

Iowa's increase in population growth from 1990-2000 was only 5.4%. This is the lowest percent increase of all the surrounding Midwestern states. Iowa is also experiencing an increase of deaths exceeding births in many of our rural counties. In addition, rural Iowa counties are experiencing an out-migration as residents move from smaller communities to Polk County and other urban counties to find jobs. Our challenge is to strengthen these smaller rural communities with businesses and opportunities for Iowans to maintain a desirable lifestyle in the rural areas of the state.

Iowa currently has a 2.1% unemployment rate, the lowest rate in the nation. This unemployment rate is largely impacting recruitment and employment of skilled workers, staffing for community emergency services and training of future leaders in critical roles in government and non-profit organizations. Also impacted are community school districts that are struggling to provide the quality education vital to a future workforce.

THE CENTER FOR COMMUNITY VITALITY

The Iowa Center for Community Vitality will be used by all Iowans as state policy makers address critical issues and make decisions about the future. The Center has been identified as the missing component for bridging economic and development issues for the state, and its small communities, rural and urban residents.

Iowa Center for Community Vitality - Proposed Tasks:

1. Serve as a catalyst for networking:
 - Among small and medium sized rural communities
 - Between rural and metropolitan communities and neighborhoods

2. Commission research on the impacts of policy:
 - On small and medium sized rural communities
 - On rural, central-city, and suburban communities and neighborhoods
3. Assess performance of alternative strategies for:
 - Improving rural community vitality
 - Improving rural-metropolitan linkages
 - Improving vitality for Iowa
4. Encourage informed deliberation of Iowa community issues
5. Other

In addition, the Iowa Center for Community Vitality will collaborate with national centers such as the Rural Policy Research Institute at the University of Missouri at Columbia, Missouri, and the Center for the Study of Rural America located at the Federal Reserve in Kansas City, Kansas. Both resources will greatly enhance the efforts of the Iowa Center for Community Vitality by utilizing national statistics as a comparative gauge and barometer.

The Iowa Center for Community Vitality will have an immediate impact by providing analysis and policy research on critical issues currently hindering communities and rural Iowa. Examples of needed policy research are:

- Rural impacts of immigration
- Rural impacts of utility deregulation
- Rural schools and teacher pay
- Effective government service delivery in rural Iowa
- Protective services in rural Iowa
- Plant location and community impact assessment

The Iowa Center for Community Vitality will provide continuous service to the rural constituencies of this state. The demand for services has been compounded by the fact that two-thirds of Iowa's population lives in unincorporated rural areas or in rural communities with populations under 50,000, creating a rural majority populace. The client list includes:

- Rural constituents who are in need of assistance with critical rural issues.
- Local and Regional Leaders who are seeking new ideas for solutions to complex community, county, and regional issues.
- Business and Industry leaders who struggle with employment and business development issues.
- Local, State, and Federal policy makers who seek out the effects of decisions on rural Iowa and America before determining policy.

THE FOLLOWING BILL IS CURRENTLY BEFORE THE IOWA LEGISLATURE FOR ENDORSEMENT BUT WITHOUT ANTICIPATED STATE FUNDING:

A BILL FOR

An Act establishing an Iowa center for community vitality.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. NEW SECTION. 16B.1 LEGISLATIVE FINDINGS - INTENT.

"A need exists in this state for providing assistance to areas of the state which have historically endured population losses or can reasonably expect population declines in the future. The general assembly finds that the creation of an Iowa Center for Community Vitality will greatly enhance the ability of these areas to successfully address these critical issues. It is the intent of the general assembly that the center provide information, resources, expertise and guidance to all areas, communities and neighborhoods of larger communities that are facing the prospect of long term population decline. The Center will also facilitate positive interaction between rural and urban areas and encourage informed deliberation of issues affecting rural areas consistent with this chapter."

Sec. 2. NEW SECTION. 16B.2 IOWA CENTER FOR COMMUNITY VITALITY CREATED - DUTIES.

1. An Iowa center for community vitality is created.
2. The center shall do all of the following:
 - a. Promote and facilitate communication and networking as follows:
 - (1) Between and among small rural communities.
 - (2) Between and among small, medium, and large rural communities.
 - (3) Between and among rural areas and rural communities, and metropolitan communities and suburban areas.
 - b. (1) Commission and facilitate applied research of policy issues affecting Iowa communities and rural areas including, but not limited to, all of the following:
 - (a) Rural health care.
 - (b) Land use and the protection and prudent use of the state's natural resources.
 - (c) Rural schools and education.
 - (d) Economic development, housing, and entrepreneurship.
 - (e) Delivery of government services.
 - (g) Accessibility to advanced telecommunications technologies.
 - (h) Citizen leadership and volunteerism.
 - (2) Research commissioned by the center, at a minimum, should assess and evaluate the impact of implemented policies, as well as the likely impact of proposed policies, on small and medium sized rural communities, rural areas, and metropolitan and suburban communities and neighborhoods.
 - c. Promote and encourage informed deliberation of urban and rural issues.

Sec. 3. NEW SECTION. 16B.3 COMMUNITY VITALITY BOARD CREATED - MEMBERSHIP - DUTIES.

1. A community vitality board is created to oversee the activities of the Iowa center for community vitality. The board is an autonomous entity which is attached to Iowa state university of science and technology for organizational and administrative purposes only. The board shall consist of the following:
 - a. Seventeen voting members as follows:
 - (1) Seven citizen members appointed by the governor, subject to confirmation by the senate.

- (2) Four persons appointed by the governor representing local elected officials and nonprofit organizations representing private sector interests. Persons appointed pursuant to this subparagraph shall be selected from individuals nominated by associations or organizations representing the interests of such local elected officials and nonprofit organizations.
 - (3) The rural resources coordinator appointed pursuant to section 15.111.
 - (4) One person representing the state University of Iowa, appointed by its president.
 - (5) One person representing Iowa state university of science and technology, appointed by its president.
 - (6) One person representing the University of Northern Iowa, appointed by its president.
 - (7) One person representing community colleges, appointed by the state board for community colleges.
 - (8) One person representing private colleges and universities within the state, to be nominated by the Iowa association of independent colleges and universities, and appointed by the Iowa coordinating council for post-high school education.
- b. Four members of the general assembly with not more than one member from each chamber being from the same political party. The two senators shall be designated by the president of the senate after consultation with the majority and minority leaders of the senate. The two representatives shall be designated by the speaker of the house of representatives after consultation with the majority and minority leaders of the house of representatives. Legislative members shall serve in an ex officio, nonvoting capacity. A legislative member is eligible for per diem and expenses as provided in section 2.10.
 - c. Members appointed by the governor are subject to the requirements of sections 69.16 and 69.16A, and shall be appointed to staggered terms of four years beginning and ending as provided in section 69.19. The governor shall fill a vacancy for the unexpired portion of the term.
2. The community vitality board shall do all of the following:
 - a. Provide overall supervision, direction, and coordination of the functions and activities of the center.
 - b. Develop an annual budget recommendation for the center.
 - c. Employ a director for the center and other personnel as necessary to carry out the functions and activities of the center.
 - d. Prepare and annually update a strategic plan for the purpose of providing direction for the activities of the center. The plan shall establish a mission, goals, and objectives for the center. The plan shall promote participation in cooperative projects with other governmental and private entities.
 3. The community vitality board may do any of the following:
 - a. Accept donations, gifts, and contributions in money, services, materials, or otherwise, from the United States or any of its agencies, or from any other source, and use or expend such moneys, services, materials, or other contributions in carrying on the functions and activities of the center.
 - b. Make and execute agreements, contracts and other instruments, with any public or private entity, including but not limited to, any federal governmental agency or instrumentality. All political subdivisions, other public agencies and state agencies may enter into contracts and otherwise cooperate with the authority.
 - c. Procure insurance against any loss in connection with its operations.
 - d. Provide to public and private entities technical assistance and counseling related to the board's purposes.

e. In cooperation with other local, state or federal governmental agencies or instrumentalities, conduct studies and gather and compile data useful to facilitate decision making.

Sec. 4. NEW SECTION. 16B.4 DIRECTOR - DUTIES.

1. The director of the Iowa center for community vitality shall do all of the following:
 - a. Plan, direct, coordinate and execute the functions necessary to carry out the duties of the center and implement the strategic plan prepared by the board.
 - b. Supervise and manage employees of the center, and provide for the internal organization and operation of the center.
 - c. Recommend to the board an annual budget for the center.
 - d. Recommend to the board changes or modifications to the strategic plan.
 - e. Act as an advocate for the center and the center's mission, goals, and objectives, and work with other governmental and private entities to further the mission and achieve the goals and objectives of the center as established by the board.
 - f. Develop and implement a plan for securing private and public moneys for the use of the center, and make recommendations to the board concerning the allocation and use of such moneys.
 - g. Develop and implement a process for evaluating the results and effectiveness of center activities.

FOLLOWING IS A FINAL DRAFT FROM NORTHERN GREAT PLAINS INC. WHICH IS SCHEDULED TO BE ADOPTED BY THE ORGANIZATION ON MARCH 26,2001

**Northern Great Plains
Regional Inter-state Commerce and Development Policy
Uniformity Project**

Summary:

Some of the most significant obstacles to interstate economic development efforts in the Northern Great Plains stem from incompatibilities of state laws and administrative regulations. This project would be a collaborative effort among the Legislatures of the Northern Great Plains state of Iowa, Minnesota, Nebraska, North Dakota and South Dakota to: 1) identify regional incompatibilities in laws and administrative regulations; and, 2) build agreement on initiatives and provide forums for legislative representatives and executive agency representatives to assess and initiate coordinated efforts to resolve the identified problems.

Background:

The Northern Great Plains Rural Development Commission was established in Federal Law in 1994 for the purpose of making recommendations to the US Congress for actions that could be taken to address the rural economy of the Northern Great Plains region of Iowa, Minnesota, Nebraska, North Dakota and South Dakota. During its work, the Commission recognized that there existed many inefficiencies and incompatibilities in state and federal laws and regulations that created barriers to regional economic development and rural revitalization.

The Commission's Final Report contained many recommendations for action that the states and related Federal agencies could take to address these inefficiencies and incompatibilities in laws and regulations and maintain the intent of the original laws. Many of these issues involve matters of interstate commerce, thus it was clear to the Commission that it would be important to work closely with the cognizant Federal agencies as steps are taken to address these state (and federal) barriers to interstate cooperation in rural economic development.

This project would coordinate and facilitate efforts among the Northern Great Plains states to harmonize their respective legislative and regulatory policies and procedures. Participants in the project would include: state agencies, federal agencies, local government organizations, nonprofit organizations with regional and rural economic development goals, tribal communities, and other agricultural and trade organizations.

Examples of Laws and Regulations Where Regional Inconsistencies Exist:

The Commission's Final Report contained many recommendations for action. The Commission's Work Groups that focused on specific elements of the Region's economy generally made these recommendations. Noted below are just a few of the priority recommendations for action made by the Work Groups in the Commission's Final Report.

1) Business Development

The Commission specifically recommends "that the five states simplify and standardize small equity placement filings within and among the states to better meet the capital needs of growing companies."

"The Commission recommends that the pertinent securities agencies from the five states come together to consider the following steps:

- Adopt uniform filing requirements related to information disclosure.
- Adopt a uniform form to be used when filing within a state (akin to a form U-7, which is the form used for SCOR filings).
- Adopt uniform filing time frames.
- Adopt uniform exemptions - both securities (how defined) and transactions (i.e., number of investors).
- Adopt uniform filing fees.
- Adopt a new uniform transaction exemption. This transaction would be limited to Regulation D types of filings (thus an exempt transaction under SEC law) and require the investor to seek permits for sales in other states within the Region. These permits would have uniform requirements in all states."

2) Value-added Agriculture

The Commission specifically recommends that "state legislatures and regulatory agencies should provide for reasonable uniformity and also reciprocity among states in meat, dairy, and other food inspection programs."

"Legislatures should examine the potential for reciprocity agreements in the five-state region that address inspection procedures and various standards that affect food products or movement of food products and agricultural raw materials across state lines. These agreements could maintain food

safety in the region while creating greater opportunities for small producers to market products within one region."

3) Telecommunications

The Commission specifically recommends that the states "proactively identify and remove barriers to regional cross-border collaboration (including regulatory, tax structures, financing, licensing and credentialing, and barriers to creation of public-private partnerships)."

The Commission noted that "telecommunications allows communities-of-interest to electronically communicate and collaborate with each other. Cross-border NGP telecommunications connectivity is critical. In the area of health care, for example, the trends indicate more diagnosis and treatment outside hospitals, increased computer usage for on-line physician consultation and record access, and integration of medical communications and information technologies.

Even when technology connectivity exists, however, there are often secondary barriers such as cross-border licensing. For example, a physician affiliated with a hospital in Fargo North Dakota, wants to treat via telemedicine a patient who has been hospitalized in Minnesota. The patient has a natural link to the hospital in Fargo. But because the Fargo physician is not licensed in the state of Minnesota, he is not allowed to treat that patient.

Some reciprocity between the states would facilitate the purposes of telemedicine and similar issues that exist in other sectors, such as education and economic development."

4) Health Care

The Commission specifically recommends that "legislative and regulatory bodies in the region work together to ensure that state regulatory policies affecting markets that cross state lines are compatible."

"State regulatory policies in the Northern Great Plains region should be compatible so that health plans serving markets that cross state lines abide by similar rules in each state. And as updates occur, care should be taken to not erect artificial barriers inhibiting new organizations from improving access to care or controlling expenditures.

Regulatory policies of the future will interact with new practices in health care finance and new organizations in health care delivery. Future policies will also focus on re-engineering health care service delivery and setting parameters for competitive markets for the purpose of protecting and enhancing access to services. Pressures may arise to mandate or prevent certain practices of health plans, such as excluding providers from plans and restricting benefits. Suggestions to regulate new plans will need to be carefully evaluated, a process that would benefit from interaction among officials from the five states in the region. Since health plans do not necessarily conform to state boundaries, coordination of policies across states could minimize confusion for plans and consumers, and create consistency in access to services for residents of the Northern Great Plains."

Other Areas

The Commission identified several other areas where action could be taken to harmonize state regulations or laws. Additional areas for action include

- Prohibited cooperative membership across state borders;
- Multi-jurisdictional law practice licensure;
- Distance education;
- Cooperative filings;
- Professional licensing;
- Multi-jurisdictional recreational trails linkages and management;
- Regional tourism themes and promotion;
- Agricultural trade policy among jurisdictions;
- Inconsistent agricultural chemical restrictions policies; and
- Transportation (weights and measures, truck weights, truck tracking, weigh station coordination, rest area safety).

Project Phases:

- Identify incompatibilities among jurisdictions
- Develop joint proposals to address identified incompatibilities
- Prepare model statutory language for all states
- Convene a legislator forum to discuss the proposals
- Convene state agency forums in particular subject areas to discuss the proposals
- Communicate with legislators through the participant constituencies

Budget Request: \$1.5 million

Recommended Funding Sources: General Services Administration, Department of Commerce

Testimony to the Senate Agriculture Committee
 By Duane Sand, Iowa Natural Heritage Foundation
 Spencer, Iowa - March 24, 2001

Thank you, Senator Harkin, for the invitation to speak about conservation needs and farm policy. Iowa Natural Heritage Foundation is a member supported nonprofit, conservation organization. Our 5,100 members and partner organizations have helped us protect over 60,000 acres of Iowa natural areas and recreation lands in the last 22 years.

We are grateful for your long history of conservation leadership, Senator Harkin. We hope the Agriculture Committee will work with you, to better balance conservation programs and farm subsidies in the next farm bill. We ask the committee to address both needs in the same bill.

Last fiscal year, federal farm support payments were about ten times greater than USDA conservation payments. Farm subsidies enable the cultivation of some highly erodible lands, flood plains, and grasslands that would not be cultivated in the absence of subsidies. Congress and USDA should do more to prevent and mitigate subsidized environmental degradation.

We strongly endorse the Conservation Security Act as a means to help balance conservation and farm support. Senator Harkin, your sponsorship, leadership, and staff support for the Conservation Security Act is greatly appreciated.

Farmers and taxpayers can get more benefits from farm policy if CSA is enacted. The 1996 Farm Bill did little to correct unsustainable farmland uses. Billions of dollars in production subsidies only encourages more cheap grain. CSA can help farmers' transition to sustainable land uses and conservation practices. Farm policy can buy soil, water, air, and wildlife benefits, in addition to food security.

We think CSA has three major improvements for farmers:

1. The public pays more of the farmers' cost of providing conservation benefits. Too many farmers cannot afford to do conservation. The public should pay 100% of the real costs of many practices.
2. It can apply to all agricultural land. Stewards of the land are eligible, and a history of environmental abuse is not needed to make the land eligible for incentives.
3. It is readily available and well funded. Conservation payments will become as accessible and dependable as farm subsidy payments.

We also think CSA has four major advantages over current farm policy:

1. Conservation payments are not considered distorting of free trade, and are not subject to the subsidy limits set by the World Trade Organization.
2. More producers will voluntarily sign-up, thus also agreeing to the

conservation compliance requirements for wetlands and highly erodible lands. By the way, Senator Harkin, we especially appreciate your efforts to strengthen conservation compliance and Swampbuster by restoring the ties to crop insurance and revenue assurance. Senate support is even more important now because of the recent Supreme Court ruling on Section 404 wetland regulations.

2. There will be more urban support for farm programs, because CSA will benefit the environment in large parts of the nation that historically have not participated in farm subsidies.
3. CSA is a legitimate alternative to the Freedom to Farm promise that farmers would transition to market prices and farm subsidies would end in 2002.

CSA is a sustainable agriculture transition program that can provide help if Congress no longer supports market transition payments.

I will take a couple minutes to give an example of what CSA can do for Iowa. This map shows the watershed for the Iowa Great Lakes complex, which is about 20 miles north of Spencer. This 62,000 acre watershed, which is partially in Minnesota, provides drinking water for several thousand residents, and provides recreation for roughly one million visitors annually. This area has growing small communities because of high quality natural resources. It shows that water quality contributes to rural development because people move to attractive recreation areas.

Agricultural run-off is a great concern to local citizens and their water utility managers. Sediment, phosphorous, pesticides, and microbiological contaminant problems require much more work for water protection. Best management practices and wetland restorations to filter farm pollutants are greatly needed to prevent lake pollution.

Phase I incentives under CSA would greatly expand nutrient management, manure management, integrated pest management, and conservation tillage practices on the 37,000 acres of cropland in the watershed.

Phase II incentives would help adjust land use on targeted soils. It would pay for buffer strips; cover crops; conservation crop rotation; establishment of pastureland; or for the restoration of wetland prairie, or other wildlife habitat. Over 6,000 wetland acres were previously drained in the watershed.

Phase III incentives would help pay for on-farm research, demonstration, and establishment of whole farm conservation systems. Such systems might include organic farming transitions; the building of soil quality through carbon sequestration; better manure management using alternative livestock systems; the control of invasive exotic species that affect wetlands or natural areas; and the comprehensive pollution prevention control for farmsteads and feedlots.

Federal conservation programs are now used in the watershed, but progress is still too slow. The Conservation Reserve Program, the Wetland Reserve Program, and the Environmental Quality Incentive Program each make important contributions to this watershed and deserve much greater federal support. However, the Conservation Security Act is needed to supplement these efforts. CSA creates the means for serious planning and serious funding to support sustainable systems on working farms.

 We urge the Senate Agriculture Committee to authorize CSA, and to enable major new spending for the conservation of America's natural resources.

*Testimony of the Iowa Farm Bureau Federation
On the 2002 Farm Bill
Presented by Phil Sundblad
Spencer, Iowa
March 24, 2001*

Good afternoon, my name is Phil Sundblad. My wife Brenda and I live in Albert City with our two children. We farm a 1,000-acre corn and soybean farm in partnership with my father. I appreciate the opportunity to be here today on behalf of the 155,000 plus members of the Iowa Farm Bureau.

Farm Bureau members from across the country debated the future of farm policy at our annual meeting in January. Based on that debate, Farm Bureau supports maintaining the basic concepts of the 1996 FAIR Act including a direct payment program and planting flexibility. In addition, we are seeking an additional \$12 billion to accomplish our goals within the farm program of an improved safety net, expanded conservation programs and more funding for trade promotion activities.

We are very concerned about the approach taken by the House Budget Committee to provide this funding. The budget resolution provides additional money for farm programs but makes its availability contingent on passage of a farm bill by July 11. The next farm bill will have long term implications for the future economic health of agriculture. Good policy takes time to develop. If this trigger is maintained in the budgeting process, it is likely that only the commodity titles will be addressed.

The farm bill is about more than the program crops. It's about trade, conservation, rural economic development, risk management and credit. The program crops comprise only 22 percent of gross cash receipts in agriculture. A farm bill that addresses only those program

commodities ignores the majority of agriculture. We cannot support this approach. We urge the Senate to provide this funding without a contingency to ensure adequate time for debate on a farm bill that includes all titles, not just the commodity titles.

Farm Bureau's proposal for the next farm bill includes these components:

1. The next farm bill should be WTO compliant. Our participation in the World Trade Organization's agreement on agriculture is critical to allow our producers access to foreign markets. 96 percent of the world's consumers live outside the United States; we cannot afford to shut the door on those markets.
2. We support continuation of a direct payment program based on current payment rates and base and yield calculations. We ask that oilseeds be added as a program crop, making permanent the assistance that Congress has provided over the past two years for oilseed producers.
3. Rebalance loan rates to be in historical alignment with the soybean loan rate. In addition, we support flexibility in the loan deficiency payment program to improve its usefulness to producers as a marketing tool.
4. Implement a counter-cyclical income assistance program to provide an additional safety net feature for producers.
5. Conservation programs should be expanded in this farm bill. Producers are facing increased pressures from federal regulatory programs such as EPA's animal feeding operation rules, water quality standards and total maximum daily loads. Voluntary, incentive-based conservation programs are proven to work. But these programs have been significantly underfunded and targeted primarily to row crop producers. We support an additional \$3 billion investment in conservation programs to expand the environmental quality incentives program (EQIP) and to establish an environmental incentives program similar to the Conservation Security Act proposed by Senator Harkin.
6. Congress should increase funding for trade programs including the market access program (MAP) and the Foreign Market Development (FMD) cooperator program. Removing barriers to trade is only the first step. We must then convince consumers in those countries to buy American agricultural commodities. In addition, we must fully utilize the Export Enhancement Program (EEP) and the Dairy Export Enhancement Program (DEEP) to the fullest extent allowable under the WTO agreement. We are unilaterally disarming ourselves against our competitors if we do not use those programs.

In conclusion, farmers look forward to working with you and the Senate Agriculture

Committee as we develop a new federal farm program. I believe we have a proposal that takes the best features of the 1996 FAIR Act and combines them with some additional income safety net protection and expanded conservation and trade programs to help agriculture share in the economic success that this country has felt over the last several years.

We cannot design a successful farm program isolated from other policy considerations. Congress must recognize that farm policy is about more than just the program crops. Our success, or failure, on the farm is dependent on many factors including the export market, federal monetary policy, corporate mergers and acquisitions, tax and regulatory policy, transportation to name a few. Thank you for the opportunity to testify today before the Senate Agriculture Committee.

DOCUMENTS SUBMITTED FOR THE RECORD

MARCH 24, 2001



THOMAS J. VILSACK
GOVERNOR

OFFICE OF THE GOVERNOR

SALLY J. PEDERSON
LT. GOVERNOR

March 23, 2001

The Honorable Senator Tom Harkin
Senate Agriculture Committee
U.S. Senate
Washington D.C. 20515

Dear Senator Harkin:

The National Governors' Association recently convened a summit on "Private Lands, Public Benefits" with attendees representing 34 states and over 40 organizations. The summit clearly showed the broad interest in new farm policies that make farms more profitable and reward farmers for producing conservation commodities in addition to food and fiber. These conservation commodities include wildlife habitat, open spaces, scenic beauty, richer soil, and clean air and water that all Iowans value.

Current U.S. agricultural policy is not meeting the needs of producers or the American public. A new approach to farm policy is needed to manage the economic crisis in agriculture, address our trade limits on farm subsidies and acknowledge the public expectations of agriculture. We currently spend \$10 per acre on public land conservation compared to \$2 per acre on private land conservation even though approximately 70% of the contiguous United States is privately owned. Private lands, our working lands, simply need more attention, and private landowners need more help.

We are at a critical stage in American agriculture that will determine the fate of many people that work the land. We need a commitment to keep people on the land. You have shown real leadership in this area with the introduction of the Conservation Security Act, and your work is important to farm families across our country.

I encourage you to develop the next farm bill to help farmers produce conservation commodities, improve their bottom line and renew the public commitment to agriculture. Total funding for all agricultural conservation programs is less than 10% of the USDA budget (excluding food stamps). A "conservation reserve fund" should double existing conservation funding to cover ongoing and depleted programs and allocate another \$5 billion annually for new programs to encourage landowners to accelerate integration of conservation practices into their farm operations. As you know, Iowa farmers take pride in their stewardship ethic. We need to start rewarding them for the steps they have taken and create incentives for them to do even more.

As with many other Iowans, I am keenly interested in the next farm bill and will work with you and other members of the Agriculture Committees to elevate the importance of conservation on private lands. Thank you for listening to the people of Iowa on this important topic.

Sincerely,

Thomas J. Vilsack
Governor

**Senate Agriculture Committee
Field Hearing
March 23, 2001, Spencer, Iowa**

Testimony Presented by Carl Jensen

I am Carl Jensen, a cattle feeder from Everly, Iowa, and Chairman of the Marketing Committee of the Iowa Cattlemen's Association.

Thank you, Senator Harkin, for holding this field hearing in Spencer today.

The livestock mandatory price reporting law that goes into effect on April 2 is a good news, bad news story for the cattle industry. The good news is that we will now get information on a weekly basis on packer purchases of forward contracts, formula, and packer owned cattle that were slaughtered the previous week.

The bad news is mandatory price reporting could give producers less information about day to day cattle sales that they need to effectively market their cattle. This is because of what is called the 3-60 Guideline which states that if sales data is collected from less than 3 packers or if one packer represents 60% or more of the data, the day's sales information would not be published.

With only 3 major packers and the fact that all 3 are not big buyers on the same day, the 3-60 rule will prevent the reporting of a lot of live cattle sales. Because the new mandatory reporting law will report sales by plant and not the location where the cattle are on feed, states like Iowa, with only 1 major plant or Colorado with 2 plants, will be especially under reported. Even in Texas, so many cattle are marketed on a formula basis that on many occasions only 1 packer will be in the cash market. It appears that only Nebraska and Kansas will be able to generate reports on a consistent basis.

The mandatory price reporting law and 3-60 rule also applies to box beef sales. An example of the impact of the 3-60 rule on the box beef report was simulated on March 21st, a day with moderate volume. The 3-60 rule deleted 40% of the items reported in the current voluntary report.

What is so upsetting is that when the mandatory price reporting rule was published and opened for public comment, the 3-60 rule was not mentioned. Only a general statement was included indicating that initially the Agriculture Marketing Service (AMS) expected that mandatory information will be reported in all market news reports on a national level. In time, when and where possible, these reports may be further refined and subdivided to reflect regional and possible statewide markets. This will only be done where confidentiality can be preserved. The Iowa Cattlemen's Association submitted a written comment expressing concern about this provision during the comment period. Cattlemen sell their cattle on a local market not a national summary.

I would urge you, Senator Harkin, along with Chairman Lugar, Senator Grassley, and other members of the Iowa Congressional delegation, to take action to ensure that the mandatory price rule gives us more timely and accurate market information than our current voluntary system and become consistent with congressional intent.

Ron Tigner
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Fort Dodge, IA 50501

In asking the question of what new directions we need in federal farm policies, it seems to me we need to go to the beginning. By this I mean in 1908 a national commission decided that resources (people, money and so on) needed to be moved from rural areas into urban areas. Prior to these years we had always seen, in the U.S., an increase in the number of farmers. Since then, for every year, there has been a steady decline. In the 1950s government studies said those trends should continue. Even the best known "farm organizations" national president said that should continue. I don't feel we will improve farm communities and bring back more farmers until we have a new national philosophy – a new national policy that says we need more people farming and fair market prices. We need an affordable food policy and a sustainable agriculture and rural community policy. We need to ditch the old philosophy.

We also need a moratorium on mergers and acquisitions in the food sector, and vigorous enforcement of the Packer's and Stockyards Act with improvements on anti-trust legislation to reflect its impact on farmers, not just consumers. And not just when it reaches some high threshold of monopolization, rather when the affect in the marketplace by a combination of factors is the same as a monopoly.

Need closer time frame on check-off referendums than five years. (Probably every 3 years.)

'ZERO COST! 2001 FARM PROGRAM

Give cost of production loan rate, in the fall, on all storable crops, to farmers who contract to set aside a percentage of their total acreage the next spring. If, when the loans come due, the price of any commodity is at or below loan rate, the commodity could default into a "FARMER HELD RESERVE" and couldn't be redeemed (without penalty) if price is less than 125% of the loan rate. There should be NO! LDP or PIK program as these programs are very costly, and they undercut the price. The loan rates should be set at the average cost of production for the given crop, and be the same for all producers, regardless of geographical region. The size of the set aside percentage would be determined by the size of the Reserve. This Reserve should be a maximum of one years usage for each crop.

Example - (CORN) would have a loan rate of \$2.50/bu, require a 5% set aside, and at loan maturity if the price was at or below \$2.75/bu it would qualify for a "FARMER HELD RESERVE" and receive (in lieu of storage payments) an additional 25 cent /bu loan raising the total to \$2.75 /bu also the interest would stop. The release level (125%) would be about \$3.45/bu, and the call level (150%) would be about \$4.15/bu.

Example - (BEANS) would have a loan rate of \$5.75/bu, require a 5% set aside, and at loan maturity if the price was at or below \$6.00/bu it would qualify for a "FARMER HELD RESERVE" and receive (in lieu of storage payments) an additional 25 cent /bu loan raising the total to \$6.00 /bu also the interest would stop. The release level (125%) would be about \$7.50/bu, and the call level (150%) would be about \$9.00/bu.

Other provisions would be: No crop could be raised on more than 50% of the crop acreage in a given year. Maximum RESERVE Example- for (CORN) 150,000bu/ Operation for (BEANS) 75,000bu/ Operation

This would provide SUPPORT not SUBSIDY so the farmer could rely on the Market not the Government for their actual income. Also this would give an advantage to the livestock producer who raised a large percentage of his own feed.

I also think that Loan Guarantees (provided that there is a cost of production farm program) would be better than Direct Payments to farmers, or a HAND UP not a HAND OUT.

The Basis the grain company uses to lower the price should be illegal, the price should be the same for each commodity everywhere in the country. Buyer pays the freight, all of it!

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Written Comments for Senate Ag Committee Field Hearing
Spencer, Iowa March 24, 2001
Submitted by Keith Sexton

Summary

Goals for production agriculture in the new Farm Bill should be:

1. Provide for the long-term sustainability of US agricultural producers (conservation, profitability, competition among suppliers and buyers, strong rural communities, etc).
2. Allow entrepreneurial spirit to re-manifest itself in US agriculture (addiction to taxpayer monies demonstrated by numerous proposals from farm organizations calling for increased direct aid to producers)
3. Allow producers to respond to market signals.
4. Consider society's expectations in return for taxpayer funded payments (family farmers vs. corporate control; environmental benefits; etc).
5. Comply with WTO guidelines.
6. Require the Federal Government to work on promises implied with the 1996 Farm Bill (Freedom to Farm) - trade sanction reform, tax relief, and regulatory relief.

We producers of agricultural crops that are subsidized under the current Farm Bill are becoming addicted to federal handouts. We have learned that when the going gets tough, we need to get going . . . straight to the government for an additional "fix" to get us through that current "crisis". If we dare to observe, we will also learn that the perception of mitigated risk in production agriculture makes that segment more inviting to non-farm investors seeking minimal risk.

Some past programs have tried to utilize crop insurance to replace government payments. Unfortunately, crop insurance did not insure against low commodity prices. Now, with revenue insurance products widely available, this tool should become the centerpiece of agriculture's countercyclical safety net. These products have great potential as a safety net. However, the Federal Government's current method of subsidizing various crop insurance products distorts the crop mix by favoring the production of higher value crops in more risky areas of production. Structuring the subsidy as a factor of coverage rather than a factor of premium could easily rectify this flaw. (Proposals to allow subsidies to be based on cost of production may give some a warm and fuzzy feeling, but they will further intensify the distortion.)

On the other hand, many rural areas would be overtaken by the very large, very efficient farming operations, if economic forces were allowed to prevail. Most of society recognizes that there are benefits to numerous rural communities, all providing diverse and vibrant economic activity. The current Farm Bill addresses this desire by trying to under pin numerous farming operations with commodity support programs. We are learning that economic prosperity can not be legislated. It must be fostered. Consideration should be given to allowing income tax credits and/or exemptions to rural Americans based on the postal zip code in which they live or in proportion to various entries on their Schedule "F" tax return.

Comments and Specific Ideas For 2002 Farm Policy

My name is Keith Sexton. My family and I operate a corn and soybean farm near Rockwell City in northwest Iowa. Some areas of our operation were once owned by my mother's grandfather. Other areas were once owned by my father's grandfather. If any of our 3 children choose to farm with us they will be the fifth generation on those parts of our operation. Obviously, I have a strong desire to see our industry of production agriculture be sustainable into the future.

Unfortunately, our communities are struggling; school enrollments are decreasing to the point that very few rural communities are able to support an efficient school district. In most cases, two to four communities have merged school districts into one. Since schools are the symbol of community life, very few communities are willing to lose that symbol causing significant financial and time resources be spent transporting students. Friday night ball games often involve trips of 80 miles one way. Our children need to be roadside by 6:50 a.m. to catch the school bus even though classes in some buildings do not begin until 8:30.

Past Farm Bills have addressed this problem by offering subsidies to agricultural producers. Unfortunately, in many instances, these subsidies increase farmland costs as farmers perceive either increased income or less risk in purchasing or renting additional land. In addition, we in production agriculture are becoming so dependent on the subsidies that we are like drug addicts: we are only able to think that the solution to our woes is an additional injection of federal cash.

Both of these situations, struggling rural communities and addiction to production subsidies, are detrimental to sustainable agriculture. I appreciate the opportunity to submit comments to the Senate Ag Committee. The producer organizations I belong to are under such tight time constraints to have their proposals for the upcoming Farm Bill approved by their membership and analyzed by budget offices for submission to the House Ag Committee that there has been very little time available to develop and expand on new, innovative concepts.

The proposals suggested below are ones that I think deserve further consideration as the new Farm Bill is being discussed.

I. Agricultural Production

Historical Observations:

- *Minimum price guarantees, above market levels, on production (LDPs) encourage production.*
- *Fixed cash revenue payments usually factor into higher land prices.*
- *Commodity prices that rise due to supply reduction programs usually become non-competitive on the world market*
- *Most producers like planting flexibility.*

Ideas to consider:

- ◆ Government payments (including subsidized crop/revenue insurance premiums, loan rates and LDPs) should not substantially skew production risk ratios and thereby alter market signals for crop mix planting decisions

- ◆ The Farm Program's safety net should be revenue insurance products that can be available nationally on all significant agricultural commodities (including perennial hay and possibly livestock)
 - » actuarially sound premiums due after harvest
 - » subsidy on administrative portion of premium and as a fixed percent of coverage, not of the premium
 - » production yield history based on actual yields during the most recent seven year period
 - producer given option to eliminate 1 or 2 low years, must also eliminate same number of high years
 - » need some method to help mitigate risk for producers whose worst 3 years of the past 30 have all occurred within the past 10 years
 - » need to offer coverage greater than 100% of historical average
 - » need some method to help mitigate risk for initial years on feasible crops new to area
- ◆ Adjustable--higher percentage of revenue insurance coverage entitles producer to additional insurance premium subsidies/credits

II. Eliminate Non recourse Commodity Loans by CCC

- ◆ Current LDP protects only against prices only, revenue insurance also protects against low yield (revenue = price x yield)
- ◆ replace with loan rate buydowns to farmers via commercial lenders and/or direct loans via the FmHA successor agency and/or CCC recourse loans (CCC has recourse against borrower in event of default rather than accept collateral as full payment)

III. Strategic farmer owned grain reserve (similar to strategic oil reserve) for purpose of maintaining dependable supply; *not* for purpose of removing grain from market to drive up prices

- ◆ Bid for monthly storage rates (patterned after CRP bidding) to be paid semi-annually
- ◆ For at-risk producers only
- ◆ Cap adjusted annually after harvest based on higher of: 1) largest usage of past 10 years minus smallest year's production, or 2) amount yet in reserve from previous year
- ◆ USDA to allocate reserve cap to states based on typical post harvest storage patterns
- ◆ Producer responsible for quality maintenance
- ◆ Producers allowed to store grain on the farm or in commercial storage
- ◆ Secretary of Agriculture can "call the reserve to market" incrementally on demand
- ◆ No storage payment for first 6 months in reserve
- ◆ Producers who remove grain from reserve, or whose reserve contract is terminated for quality deterioration, etc, prior to being called by Secretary for free-stocks enhancement forfeit additional 6 months storage
- ◆ If Secretary calls grain from reserve to enhance free stocks, producer to immediately receive storage payment for time stored plus additional 6 months

IV. Incentive to keep people living in rural areas for social good of the country

- ◆ Offer income tax credit on first \$300,000 Schedule F gross farm revenue with additional tax credit for revenue insurance premiums
- ◆ OR..... additional income tax exemption based on zip code of primary residence
- ◆ OR..... continue some level of farm revenue support payments (AMTA), with payment limits, based on productive capacity of land rather than previous "program crop" production history
- ◆ May need to target other special benefits to the first \$300,000 value of production

V. Meaningful payment limits

- ◆ Need reforms to prevent multiple legal entities of larger operations to skirt payment limitations
- ◆ Per entity maximum of 2 multi-family entities per person
- ◆ Ideas:
 - » \$30,000 for federal subsidies on buy-up crop/revenue insurance premiums;
 - » \$40,000 for revenue support payments;
 - » \$250,000 commodity value in Strategic Commodity Reserve
 - » Significantly large limits for conservation practices

VI. Work to establish a world food policy including cropland set aside programs for all grain exporting countries

VII. Review desirability of allowing patent protection on life forms

- ◆ Biotech research is so expensive that companies patent processes and rush the products to market with large promotional enticements before consumer demand is developed
- ◆ Unpatentable processes would be developed more slowly as demand for them evolves, and probably through the public domain (land grant colleges)

VIII. Conservation

- *If public wants more benefits from rural areas like recreation areas, water and air quality improvements, mitigation of climate change, pastoral scenery, etc, should be willing to pay incentives for production of those benefits*
- ◆ Renew CRP and WRP upon expiration in 2002
 - » maintain current national cap
 - » county cap at 25% of formerly cropped land in county
 - » continuous enrollment areas exempt from either cap
 - » allow rental rate reduction for compatible economic activity; increase for public access
- ◆ Liberal incentive payments for adopting or maintaining conservation practices
- ◆ Conservation Programs for existing as well as new projects
- ◆ Means testing not apply to conservation programs
- ◆ Strengthen Conservation Compliance - - should be required for all federal farm program benefits including crop insurance subsidies

- ◆ USDA (not EPA, Dept. of Interior, etc) to be lead agency for conservation/environmental programs directly affecting farmland and to be adequately funded and staffed

IX. Credit & Financial

- ◆ Futures or options transactions that replace grain sold in current or previous year redefined as a hedge transaction rather than speculation
- ◆ IF commodity loan program, allow producers to declare, at inception, each CCC commodity loan as sale or loan regardless of previous history
- ◆ Assist in developing infrastructure for identity preserved crops

X. Rural Development and Beginning Farmer Assistance

- *Disadvantages to population sparseness (buffalo commons) as well as density (inner city)*
- *There are social benefits to having rural population of farmers who are independent entrepreneurs*
 - ◆ Federal Investment tax credits for new employment in rural areas
 - ◆ More effective anti-trust authority and enforcement
 - » merger/acquisition approval process considers impact on producers as well as consuming public
 - » meaningful, competition in farm input and market sectors
 - » transparent price discovery mechanism
 - ◆ Equalize Medicare payment and Medical insurance reimbursement schedules for health care providers between rural areas as urban
 - ◆ Full health care deduction for self employed
 - ◆ Reduce social security rates for self employed compared to combined employer-employee rates
 - ◆ Incentives for utility providers to offer technology (wireless internet, etc) to rural communities
 - ◆ Income and capital gains tax incentives to those assisting beginning farmers (8 years max) gain access to capital/production assets
 - ◆ Modify gift and estate tax laws to encourage transfer of assets to younger generation during mentors' lifetime:
 - » estate taxes eliminated and step-up basis allowed on estates of people who die below age 67;
 - » exemption ramped down from complete exemption below age 67 to \$1,500,000 at age 77;
 - » step-up basis on gifts ramped down from complete allowance below age 67 to -0- at age 77;
 - » in addition to current gifting allowances, individuals should be able to gift, with step-up basis, up to total of \$3,000,000 during lifetime—estate tax exemption decreased \$1 for every \$2 so gifted
 - ◆ Supplemental payment for rural development or beginning farmer programs to State Departments of Agriculture
 - ◆ Strategy for domestically renewable energy sources to replace 50% of current imports within 20 years
 - ◆ Incentives to states to assist schools in rural areas
 - ◆ Incentives for utility providers to offer technology (wireless internet, etc) to rural communities
 - ◆ Income and capital gains tax incentives to those assisting beginning farmers (8 years max) gain access to capital/production assets

- ◆ Other beginning farmer incentives

XI. Research Extension & Education

- ◆ Earned profits on at-risk enterprises--such as agricultural endeavors--by persons under age 18 able to be doubled for investment in retirement/educational accounts purposes
- ◆ More funding on regional basis for Sustainable Ag Research and Education (SARE)

XII. Trade

- ◆ Fast Track Trade Authority
- ◆ Lift unilateral trade sanctions on food & medicine
- ◆ Assist in updating river infrastructure to speed up delivery of commodities to export channels
 - » Affects grain prices throughout country via ripple effect rather than just those along rivers
 - » Can't predict future but can prepare for it, which is more detrimental: to upgrade navigation and not have demand for it, or to not upgrade and have large demand
 - » 20¢ increase in transportation cost by not upgrading river facilities may be 10% of grain's revenue, but is 100% of producer's profit
 - » Agriculture is the only major segment of the US economy with a positive balance of trade. Of corn exports, 60% moves by barge from the Upper Mississippi and Illinois Rivers; 50% of soybean exports, and 15% of wheat
 - » Most structural upgrades to enhance river transport of grain does not involve significantly altering the flow; therefore, effects on existing river ecosystems should be minimal
 - » Keeps that amount of grain hauled by trucks off our highways, and does not necessitate rail roads to expand switching yards in metropolitan areas

DAVID BERNHARD 515-679-4365
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FAMILY FARM AND SUSTAINABLE RESOURCE PROGRAM

REQUIREMENTS: ONE, TWO, OR THREE YEAR VOLUNTARY SIGN-UP OF 5%, 10%, OR 15% OF AN OPERATOR'S FARM OR FARMS CROP ACRES TO BE LIMITED TO 300 ACRES PER OPERATOR. (HUSBAND & WIFE ONE OPERATOR.)

PAYMENT - AN AVERAGE * PAYMENT OF \$60/A. FOR 15% SIGN-UP, \$40/A. FOR 10%, \$20/A. FOR 5%. MAXIMUM PER OPERATOR \$18000 WITH 15% SIGNUP. 300A. X \$60 MAINTAIN ADJUSTED LDPs ** FOR ALL PRODUCTION OF PROGRAM CROPS.

* RULES: ESTABLISH PRODUCTIVITY RATINGS FOR COUNTIES & TOWNSHIPS TO TO DECIDE AVERAGE PAYMENTS.
** USE LDPs FOR ALL PROGRAM CROPS FOR ALL PRODUCERS UP TO STRICT \$75000 LIMIT PER PRODUCER BUT EQUALIZE LDPs BETWEEN CROPS TO A MORE HISTORICAL RATIO BETWEEN CROPS. (EXAMPLE - BEANS 2.4 TIMES PRICE OF CORN) EVEN WITHOUT A SUSTAINABLE RESOURCE PROGRAM, TRANSITION PAYMENTS AND EMERGENCY PAYMENTS CURRENTLY BASED ON CORN BASES AND PROVEN YIELDS SHOULD BE ABANDONED IN FAVOR OF HIGHER LDP PAYMENTS, UP TO \$75000. PAY INSURANCE PREMIUM ASSISTANCE, UP TO 300A, DIRECTLY TO FARMERS. NO FARM SUPPORT TO INSURANCE COMPANYS.
DISQUALIFY INDIVIDUALS INVOLVED IN FRAUDULENT CHANGES IN OPERATOR STATUS.
ALL IMPORTERS OF PROGRAM CROPS WOULD PAY A FINE EQUAL TO DIFFERENCE BETWEEN THEIR FOREIGN COST AND CURRENT CBOT PRICES.

BENEFITS: FRAGILE PARTS OF FARMS SUCH AS SLOPES, WATERWAYS, WETLANDS, STREAM BUFFERS, OR SECLUDED WILDLIFE PLOTS COULD BE SEEDED FOR MORE THAN ONE YEAR. PAYMENTS TO FARMERS WOULD BE LESS THAN CURRENT PROGRAM AND TAXPAYERS WOULD BENEFIT FROM CONSERVING SOIL, CLEANER WATER, AND WILDLIFE AID. LDP PAYMENTS WOULD GO DOWN AS SUPPLY AND DEMAND BALANCES AND PRICES RISE. FARMERS HAVE FREEDOM TO PLANT WHAT THEY PLEASE, SIGN-UP OR NOT. THE WEAKNESS OF FORMER SET-ASIDES OR PROPOSED FLEX FALLOW IS THAT COOPERATORS RECEIVE LESS AS PRICES RISE AND NON-COOPERATORS TAKE ADVANTAGE WITH MORE CROPS TO SELL.

RECOMMENDATION: JOIN BRAZIL & ARGENTINA IN A FORM OF EU OR OPEC TO SET A TARGET OF A REASONABLE CARRY OVER TO SUSTAIN FARM ECONOMIES. NO MORE AID FROM IMF, NO MORE CURRENCY DEVALUATIONS. WE NEED A LONG TERM SOLUTION.

Cost of nonrecourse loan program-- 2-3-00 by George Naylor

Before the first nonrecourse loan program in 1933, farmers could expect extremely low prices at harvest and then, in the year ahead, prices that showed no relationship to their production or living costs. The purpose of the nonrecourse loan program was to establish a market price floor related to true cost of production directly under the eligible storable commodities, and indirectly under livestock and other farm products. Beginning in the mid 1950's, market price floors below cost of production became the norm, and in 1996 the Freedom to Farm Act replaced the nonrecourse loan program with a marketing loan program which completely eliminated a price floor.

If today's law of the land aimed at true cost of production by use of the nonrecourse loan, this is how it would work: The secretary of agriculture would announce that a nonrecourse loan is available for corn at \$3.50 per bushel (the loan rate). A farmer can then store the grain and get \$3.50 per bushel as a loan from the Commodity Credit Corporation to be payed back with interest. If, during the nine month length of the loan, the farmer cannot market the grain at a price to cover the principle and interest, the farmer can forfeit the grain to the government and keep the loan without any further obligation. (If this were a "recourse loan" like available from a bank, the government could say that the grain is no longer worth the original loan and the farmer would have to liquidate other assets to payback the loan.) Thus, farmers need not sell grain for less than the loan rate, and likewise, the giant grain and livestock firms must pay at least the loan rate for the grain or go without.

Any grain forfeited to the government will become part of the nation's food security reserve. Also, the government could announce that grain in storage under loan for nine months can go into a "farmer-owned reserve" where the farmer continues to own the grain and is paid storage payments by the government ideally at commercial rates. (The cost of the reserve program will be examined later in the article.) These food security reserves must be isolated from the market by rules that keep the grain off the market until a short crop or unusual demand drive prices above a stipulated trigger price, say 120% of loan, or \$4.20 per bushel. If land set-asides are managed properly, very little grain need go under loan and very little grain need be absorbed in reserves, except in years where we are blessed with usually large crops. This kind of program makes bountiful crops a blessing rather than a price-depressing curse.

The beauty of the nonrecourse loan is that farm income comes from the purchaser of the commodities, not the federal treasury, since nine-month loans are payed back with interest, and the market price floor means higher prices for grain become part of the consumer's food dollar. Likewise, cheap grain prices at below the cost of production do not get factored into the expansion plans of giant hog and broiler factories which tend to depress all livestock prices. As long as livestock factories can get on the phone and order unlimited amounts of feed at less than the cost of production, with no responsibility for the farmer's cost of raising the feed or costs of conserving soil, water, and biodiversity, diversified family farms and ranches will become a thing of the past. Incidentally, since the storable commodities are so widely adaptable, their direct market floor tends to place an indirect floor under nonstorable commodities like fruits and vegetables. The whole farm economy benefits.

The Freedom to Farm Act has depended on a "marketing loan" to facilitate grain marketing rather than nonrecourse loans. Since there are no conservation set-asides or food security reserves, every fencerow-to-fencerow bushel produced must find a home through lower market prices. While, it is rather difficult to explain all the features of the marketing loan, it works something like this: The national average marketing loan rate (MLR) for corn is \$1.89 per bushel. Each day, the Farm Service Administration (FSA) office announces a "Posted County Price" (PCP) which is supposed to be within a few pennies of local cash prices for corn. Let's say on any given day the PCP is \$1.50 per bushel. The farmer can get a Loan Deficiency Payment (LDP) from the government (MLR minus PCP) and then market the grain to net approximately the MLR. The farmer can hold the grain after receiving the LDP, but if market prices drop further, the farmer may have to sell at a price less than \$1.50 and net less than the MLR. Another option would be to store the grain and get a marketing loan at the MLR. Then later in the year, if prices rise to levels above the MLR, the farmer can sell the grain and payback the loan with interest at the MLR, much like a nonrecourse loan. If, however, prices stay below the MLR, the farmer is allowed to payback the loan at the PCP and keep the difference. The upshot of all this is that, with a marketing loan program, big crops must clear the market even if prices are below the cost of production and below the MLR. The federal treasury makes up the difference, estimated to cost \$6.2 billion this year. An economist at Iowa State University has told me that, given the large amount of grain that has been LDP'd and not sold, along with the farmers ability to payback loans at less than the MLR, instead of a market price floor under prices, we now have a market price ceiling somewhat below the MLR.

The Freedom to Farm Act is a dream come true for the giant grain, livestock, and packing corporations--no conservation set-asides, no food security reserves, and no floor under commodity or livestock prices--with the American taxpayer asked to keep the agriculture system solvent. USDA projects \$22.5 billion to be spent this year in direct payments to farmers. In comparison, we spend a little over \$4 billion on the Head Start Program. USDA officials plea for more money for conservation programs but don't seem to recognize that \$22.5 billion would be available if farmers were receiving a fair price in the first place. A cheap commodity policy like Freedom to Farm is the most expensive policy for the U.S. taxpayer. Given the concentrated control of processing and retailing, does this ever really translate into "cheap food?" [insert statistics on retail food inflation]

I believe another side effect of Freedom to farm is changing our rural communities by changing the relationship between renters and landlords. The complexity of figuring out a grain marketing strategy and the myriad of FSA forms has been one more reason that landlords have changed their crop share lease to cash rent. Cash rent tends to place the landlord-tenant relationship on strictly monetary grounds so that land often gets rented to the highest bidder instead of the neighbor who may be a better steward of the land. The rural social fabric has suffered from this.

COST OF FOOD SECURITY RESERVE

The ancient wisdom of the story of Joseph's plan for Pharaoh to store grain in seven fat years for use in the seven lean years, along with today's increasing climate variability as we enter a new millennium, argues that a wise society would protect its people with food security reserves. While we have seen that the nonrecourse loan program costs the U.S. Treasury nothing to maintain a price floor at true cost of production, maintaining a reasonable food security reserve will have some cost.

The costs of maintaining a food security reserve are fairly straight forward. Like any investment, once grain enters government's hands or is placed in the farmer-owned reserve, interest charges begin as a cost to the government as do storage and handling payments. Grain in the government CCC stocks can be sold at higher prices (trigger levels) later in times of shortage at a profit to offset some cost. Thus, interest,

storage, and a small administration charge comprise the costs of the reserve. This will be a small amount compared to the \$22.5 billion in direct payments that accompany a cheap grain, food-insecure program like Freedom to Farm.

Local Food Connections/ Farm to School

I would like to take this opportunity to introduce a new project on local food connections, which I have been working on with the Iowa Farmers Union. The background for this program started in 1999 when I started networking with a group of local producers marketing our own food products together. Our organization is called Northwest Iowa Meat & Produce. Last summer we started developing an institutional market in the Cherokee County community. We began working with Sioux Rivers RC & D on their Our Rural Supermarket Project. NWIA Meat & Produce became a test program for their food project. This past November the food service director from the Cherokee Community School and I attended a Local Food Connection/Farm to School conference in Ames. We were recognized as being the first local food connection in the state for providing ground meat products in a local school system.

I learned from that conference that Iowa has been approached to join a federal school program along with 9 other states. In January of this year, I put together a group of people who could help create a new program for the development of a state-wide institutional market. This is a way for producers in Iowa to be able to network together. In the 2 months since we had our meeting, each agency or organization has found ways to make changes in the current programs and be able to collectively work together on being one team for this initiative. We will meet together again on March 30th. Iowa is now a pilot program for the federal school lunch program. We will be introducing a complete food nutrition package offering both meat & produce from local farmers.

Iowa has the oldest population age in the United States. However our state is rich in resources. We need to take steps to turn this state around in agriculture and to help farmers find other alternatives in their current farming operations. We need to find alternative markets for their food products. It is time for local farmers to take control of marketing their own food products. It is time for producers to have more input on the current agricultural programs in our state. It is time to have programs that support local producers not large corporations. It is time for local farmers to keep the retail share of our products and to share those profits in our communities. It is time for us to stop the importing of food products into our state, especially the items that are not labeled with the country of origin. It is time for us to be concerned with food safety issues. It is time for us to start working together to promote local food connections in the state of Iowa.

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