GOING FORWARD WHILE MINDFUL OF OUR PAST
Remarks of May 13, 2001 to the Committee on Agriculture
U.S House of Representatives
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My remarks will be general in nature representing my overall views on policies related to the Farm Bill. Many of the concerns we have about agriculture today echo the concerns of the past. I also find that an understanding of the path we set in the past helps guide our path in the future. Seventy years ago, Howard Tolley, Chief of the Bureau of Agricultural Economics, described three objectives for agricultural policy efforts* that I have paraphrased here. These objectives were;

- **Activities designed to increase the incomes (and preserve the economic viability) of commercial farmers producing the bulk of the nation's food and fiber.**
- **Efforts to raise incomes and improve living conditions of subsistence farmers, victims of drought, and others at a disadvantage within agriculture itself.**
- **Activities designed to encourage better land use (and conservation) and more efficient production.**

Tolley goes on to say that most of government's activities had been directed towards the first objective and that the last two would need to receive increased attention in the future. I would argue that today we still focus on the first objective and may need to focus more on the last two. The first objective is also somewhat different today. We need to remember that the level of farm income was critical in the 1930s (roughly 40% of urban incomes) and that farm family income is now larger than urban family income. The goal of income parity has been achieved. Volatility should be the more important concern today.

My concern for the future with respect to commodity policy is the cost of these programs and the trade-offs involved when we create a government role to provide a safety net along with a direct income payment. Briefly, our history has been that up until the 1996 Farm Bill the focus was on financial support that related to crop prices – what I see as a classic safety net. With the combination of set asides to restrict supply and the loan rates and later target prices we put a floor under prices for the program commodities and indirectly supported incomes. As U.S. programs were based on the volume of the commodity produced we gave the most support to those producing the largest volumes of those commodities. In some cases we also ended up attempting to support world prices with our direct intervention before we adopted target prices. In 1996, with Freedom to Farm, we moved to a direct payment system based on past program benefits and participation. The

***Howard Tolley, "Some Essentials of a Good Agricultural Policy" in the 1940 Agricultural Yearbook, Farmers In A Changing World, USDA, Washington DC, 1940.**

political attractiveness for this reflected high commodity prices at the time with the knowledge that traditional safety-net payments would not be forthcoming so there would be no payments under safety net programs. There was also the realization that direct payments would be a fixed and predictable budget expenditure. The post 1996 decline in commodity prices resulted in Congress making repeated emergency payments in addition to the prescribed direct payments to try to maintain farm income. Given that experience, in the 2002 farm bill we returned to the more traditional support payments but we also continued the direct payments – taking us back to where we were before 1996 but now with the addition of a guaranteed direct payment.

I am more comfortable with the safety net approach. I am concerned about the negative perception and taxpayer cost of direct payments, especially when prices are high. I see direct payments as the form of government support most likely to be bid directly into land prices. We need to move to a more effective and appropriate safety net while withdrawing the direct payments, as was begun recently with the ACRE program. Direct payments do not deal directly with the volatility problem – as we learned in the late 1990s. Today this is volatility not only on the price side but also the input side.

If we were to discontinue the direct payments, then are there ways to structure the safety net better than we have in the past? A safety net is not only the set of counter-cyclical payments based largely on crop prices, but this tool also must be in balance with crop insurance and disaster payments. There is a perception that Congress has always been willing to help farmers in a disaster, and this has at times undercut crop insurance participation. Even when crop insurance is required, the perception is that if the disaster is severe there will be overriding disaster payments. Crop insurance is a critical part of the safety net. Among other things it allows more participation in market based risk tools. Setting a balanced course between the three legs of this safety net (program payments, insurance and disaster payments) and then sticking to it will take discipline on all sides. We need to recognize that a poorly designed or undisciplined approach that does not coordinate all three hurts the public perception of agriculture, may be more costly than it needs to be, and can invite moral hazard. We see evidence of this in irrational cropping patterns and "farming the program". It also affects conservation efforts when we have to buy land unsuitable for agriculture out of production.

Much of my recent experience is with conservation programs and biofuels, and I would like to share some thoughts in these areas as well.

I believe that Congress and the Department have done a good job with the Conservation Reserve Program. Most of the land in the program today is land that probably should not be farmed at all or farmed intensively. Much of the land has high conservation benefit for

the public. The public appears comfortable with both the costs and benefits of this program. It provides valuable environmental protection cost effectively in critical geographical and environmental areas.

The Department has made progress with the Environmental Quality Incentive Program and this also appears to be delivering good value to the public. I am concerned about the suggestion to take the additional money needed for nutrition programs from EQIP. This need for additional funds can come equally or more so from the commodity programs in which I would target direct payments.

I am most supportive of NRCS's recent Mississippi River Basin Initiative. If we are to get a handle on reducing nutrient run-off, we will have to target those watersheds, crops, or management practices where we can have the most impact for the dollars spent. Our budget situation is such that everyone should not be able to receive benefits from conservation program payments unless they can contribute high value to solving resource problems cost effectively in return.

The Conservation Effects Assessment Project (CEAP) has great promise to improve our conservation programs and create a better accounting of progress (or the lack of it) towards specific environmental goals. This effort also provides the information and data for meaningful adaptive management of conservation programs. CEAP is not a small investment, but it should allow real improvement in assessing what works and what does not work as we put practices on the land. This must continue to be supported.

We have a different tradition of government involvement in conservation than many other countries – in Europe, as well as Canada and Australia. The primary economic need in the U.S. in the 1930s was to get cash into rural areas. It was not politically acceptable to send farmers an income support or commodity target price payment. The solution was to give farmers financial assistance for setting land aside for conserving uses and for undertaking practices or improvements on the landscape. Note the amounts expended below expressed in constant dollars for financial assistance and long term land retirement:

CONSERVATION FUNDING*

	1937	1999
Financial Assistance	**$5,041,700,000**	**$ 231,383,000**
Land Reserve	**$ 261,863,000**	**$1,711,163,000**

***in constant 2000 dollars**

Financial assistance related to conservation was the primary vehicle for bringing cash to rural areas. The relative financial assistance under conservation in 1937 is comparable to the expenditure on commodity programs in recent times. My concern today is when conservation programs are still viewed as income transfer mechanisms. Part of the concern over targeting conservation payments relates to this earlier history where the imperative was that everyone in the conservation district should be eligible for payments. If we are to successfully tackle our resource concerns we will have to target resources in the knowledge that these resources are limited and in fact probably inadequate.

Effective conservation programs are a critically important public good. This is increasingly the case as we attempt to get increased production from a largely fixed land base. We are beginning to realize that there are sustainability limits.

With respect to biofuels, there are key issues of importance to this committee. The greenhouse gas issue is important in making public policy supporting biofuels. The indirect land use issue needs to be part of the decision process, but is less important than initially determined. A key question at this point is what might be done to relieve the ethanol industry of the blending wall barrier. Raising the blend rate when cellulosic ethanol is some way down the road would force an increase in the amount of corn based ethanol production. This raises resource use concerns among others.

Today we are utilizing most all of our high quality agricultural land. When corn prices approached record highs a few years ago the new land that then went into corn production came largely from soybeans, wheat, and cotton. There were not many idle lands of sufficient quality waiting to be planted. Since the early 1900s the number of harvested acres for major crops in the U.S. has remained relatively stable. As acres were taken out of production due to such things as urbanization we have taken the fifty to seventy million acres we used for feed for horses and mules from that use to meet the loss of land for food and feed-grains. Today, acreage expansion will have to come out of high quality pasture and then from land of declining quality after that. What we see today is the agricultural land base that we have. From this point on, only increased yields (possibly pushing the land harder) will be our primary expansion route. More corn for biofuels involves conservation concerns and a very real food versus fuel concern. In addition, high feed-grain prices decimate the livestock and dairy industries.

Cellulosic ethanol production does not remove the land base concern. To approach economic viability, cellulosic materials will have to be grown within close transportation radius of conversion plants. High quality land will likely have to be used as well as land that would be less suitable for food and feed-grains if this activity is to be spread across the country at large scale. These crops do require fertilizer and do present management

challenges, such as their invasive characteristics, that are no less daunting than those we face for other crops. There is also only so much biomass material that should be removed from the land if we are to maintain soil health. Cellulosic biofuels are not a silver bullet for our liquid fuel problems. Increased energy efficiency is in many cases still a more cost effective option.

In closing, I would like to note that some years ago my colleague Lyle Schertz made the comment that we have a tendency in the US to socialize losses and privatize gains*. This has been the case across many of our activities associated with government. Today, we can no longer afford to do this – in agriculture or in other sectors we no longer command the national wealth nor are we willing to tax ourselves to cover the cost to allow us to do this. The other side of the coin is that if we actually believe in markets, more of the private gains will have to cover losses.

While my remarks here have been general, I will try to respond now or in writing later to the more detailed concerns you might have with the help of my colleagues at Purdue.

***Lyle Schertz and Otto Doering, <u>The Making of the 1996 Farm Bill</u>, Iowa State University Press, Ames, 1999.**