

**Report
of the
Governor's Task Force
on the
Agricultural Situation**

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I. Introduction

Farming in Iowa and in the United States has been characterized by rising levels of efficiency and productivity from the time the soils were first tilled more than a century ago. Technology, investment in infrastructure and increases in management ability and skill levels have combined to assure that fewer and fewer human and capital resources are needed to produce the needed food and fiber supply. Thus, farming has been a development sector as resources have been freed to make it possible to engage in other societally important activities. Were it necessary for half or more of the population to be engaged in farming, as was the case a century ago, human and capital resources would not be available to engage in medical and other research, space exploration, the development of information systems and a host of other areas of human endeavor that have enriched and empowered the human family worldwide.

But farming is also characterized by vulnerability that threatens, unfortunately, farming as we know it in this state. This Task Force Report focuses on that state of vulnerability—the causes, consequences and possible solutions. The Task Force is not in complete agreement on possible solutions, as can be seen from the report, but agrees that the problems demand urgent attention at all levels and by all of those who have an interest in farming in this state and elsewhere.

Governor Thomas Vilsack, in August of 1999, created the Task Force to focus on the economic and financial problems facing agriculture and to provide recommendations for action at the state and federal levels.

Causes of Vulnerability

Farming in Iowa and elsewhere in the country is characterized by several fundamental features which set the stage for vulnerability of the farming sub sector. First, most of the commodities produced by farmers face conditions of inelastic demand in the marketplace. As supply rises, prices and profitability drop disproportionately as consumers' demands are satisfied. Conversely, reductions in output are accompanied by disproportionate rises in prices and profitability as consumers' needs are filled. The result is a high level of price volatility in the sector. Consumers want to be fed adequately, and will pay a high price to do so, if necessary, but do not over-consume just because food prices are low.

Second, the number of producers is large enough that no single producer can influence price with their output decisions. This contrasts sharply with most other sectors of the economy where the number of decision makers is sufficiently small to assure some influence on price as firm-level decisions are made as to output levels. Thus, it is difficult in farming to deal with conditions of overproduction and inventory excesses. This state of vulnerability has contributed to efforts to gain market power through cooperative activity. It has also resulted in a substantial disparity in market power between producers on the one hand and input suppliers and output processors/handlers on the other.

Third, farming is one of the few sectors where those involved do not control the basic variables responsible for fluctuations in output levels. The innovativeness in developing better

seed, chemicals, fertilizers, machinery and even management does not extend to control over the weather. And, year over year, weather is a major variable affecting crop supply levels.

A fourth variable affecting vulnerability is technology. Over the past 70 years, the stream of technology has boosted output levels at a slightly higher rate than demand has increased. Coupled with the other dimensions of vulnerability, technology has assured that food has been produced in abundant supply at a reasonable cost and with a steadily dropping demand for human and other resources. The dynamics of adjustment of resources out of agriculture have resulted in depressed returns to the factors of production (partly due to immobility of resources and their specialized nature) and reduced economic vitality for rural communities. The levels of technology in prospect are likely to intensify the pressure on farming to reduce further the land and labor resources committed to farming and to further impact negatively the economic vitality of rural America.

Specific Manifestations of Vulnerability

As discussed in this report, the confluence of forces causing and contributing to vulnerability has produced several specific manifestations of economic and financial trauma that deserve policy attention.

- The economic and financial pressures from low commodity prices are taking a toll on farm families and rural communities. Pressures have intensified in recent months for more economic, financial and emotional support for farm families and others adversely affected in rural communities. This problem area is discussed in detail in Part III below. The challenge is in how to use available public and private sector resources to more effectively assist those in need of temporary or longer-term assistance.

- The problems of overproduction and low prices have focused attention on policy options for adjusting output to more nearly match commodity demand. The farm policy legislation enacted in 1996 represented a major departure from farm programs in place since the 1930s. Legislation in place from 1938 to 1996 placed responsibility on the Secretary of Agriculture to balance supply with demand for the major crops by idling land, maintaining commodity reserves and making cash payments to producers to help support farm income in times of over production. The policy options are discussed in detail in Part IV below. The challenge is in putting in place policies that are economically rational, consistent with a tradition of assisting producers in their adjustments in production and marketing and in keeping with a widely supported objective of conserving soil and water resources.

- Another dimension of vulnerability relates to the absence of market power on the part of individual producers. Dramatically higher levels of concentration in input supply and in output processing, shipping and handling contrast sharply with the situation in farming with no single producer in a position to command much market power. That structural setting has produced almost total vertical integration of the broiler industry as processors and feed companies have emerged as the sources of nearly dominant market power and with producers reduced to a level of limited management prerogatives and limited income. A similar pattern is emerging in hog production and vertical integration of the crop subsector is already in evidence. This problem area is discussed in Part V below. The challenge is to develop and implement a

vision for agriculture based upon independent entrepreneurship with competitive options available for obtaining inputs and in marketing their commodities.

- Another problem area worthy of attention in terms of vulnerability is in maintaining and preserving a livable environment in the face of odors, soil erosion, fertilizer and chemical loss into watercourses and solid waste disposal. This problem area is discussed in Part VI below. The challenge is in assuring that societal conservation values are appropriately expressed to allow production to occur but not at the expense of a deteriorating environment in the state.

- The Task Force identifies utility deregulation as an important factor affecting economic development in the state and in the rural areas of the country. This problem is discussed in Part VII below. The challenge is in balancing economic pressures for deregulation of firms providing utility services in rural areas with a public policy favoring economic development in those areas to provide economic vitality needed to absorb the reduced economic buoyancy from farming.

- World trade issues with an emphasis on The World Trade Organization, are highly important to Iowa and U.S. agriculture and are discussed in Part VIII.

- Problems related to the genetic modification of crops are discussed in Part IX.

The priority recommendations of the Task Force are summarized in Part X.

II. A Vision of Agriculture for Iowa

At an early stage, the Task Force recognized that a coherent, integrated policy for farming and rural Iowa required a vision of what farming should be in the twenty-first century. The Task Force reached agreement on the 10 features that should characterize farming and related subsectors in the new century. Those ten features are summarized below.

In this time of unprecedented uncertainty as to the future structure of the agricultural sector, the Task Force believes that state and federal policy as well as private sector initiatives should be oriented toward encouraging a production agriculture sector with several features—

1. The sector should be comprised predominantly of an independent group of entrepreneurs and widely dispersed ownership of assets that create wealth.
2. The producing sector should display a state of reasonable economic health and stability.
3. Farming and processing operations should be carried on with appropriate attention to resource stewardship with a minimum of cost externalities with respect to effects on soil, water, disposal of hazardous waste and urban sprawl.
4. Policies pursued should reflect an objective of creating and sustaining strong communities, both socially and economically.

5. Both input supply and output processing should be characterized by open and competitive markets.
6. Food and fiber production should be focused on consumer desires with both producer and consumer involvement in technology and other decisions affecting the food supply.
7. The food system should provide reasonably priced food and fiber to consumers while providing opportunity for reasonable profits at all stages in the production, processing and distribution processes.
8. The farming sector should, collectively, have access to programs and policies for managing excess supply in the same manner as firms in other sectors generally can manage excess inventories in light of fluctuations in supply and demand.
9. Through appropriate policies at the state and federal levels, producers should be assured of a non-discriminatory environment and a level playing field with respect to access to credit and development funds.
10. The policies relevant to the producing sector should recognize the primacy of people within the economic system.

III. Assistance to Those Under Stress

Continuing low commodity prices have created an economic farm crisis for much of rural Iowa. Farm families in 1999 harvested a near record crop in many areas of the state, but for many, adequate profits and cash flows remain elusive. While the federal government has appropriated record special payments to farm families, a great deal of uncertainty exists on the part of farmers, creditors and lenders, as to whether they can count on "special appropriations" in upcoming years.

Recent studies suggest that a significant number of farm families are frustrated by the low prices, inherent risks, large capital expenditures and changing structure found in modern agriculture. One study rates 30 to 50 percent of Iowa farmers as financially at risk. One of the consequences will be an increase in the number of farmers exiting farming. Surveys also show that already 35 percent of farmers have off-farm jobs, and 51 percent of farm wives work off-farm in order to supplement their income (Iowa Farm and Rural Life poll, 1997). Obviously, farm families are feeling the stress, as are rural communities largely dependent on the agricultural economy.

A broad group of service providers is providing assistance to struggling Iowa farm families (see Appendix). This section seeks to address the role of service providers in meeting the needs of farm families.

Iowa has a number of private and public agencies and organizations that have some role in providing assistance to farm families suffering from economic, legal or psychological problems. In relatively normal farm economic periods, the service providers can adequately meet

and handle the needs of the small stream of farm families seeking assistance from localized troubles caused by bad weather, crop failures or poor management decisions.

However, in times of mild to severe rural economic conditions, service providers face a host of complications to providing adequate service. Unfortunately, many of these agencies and organizations have pre-determined, limited funds devoted to assistance. As a result, in a severe farm economic crisis funds are not available and potential clients may be turned away, placed on indefinite "waiting lists" or given minimal assistance. Some agencies and organizations are restricted by their grant guidelines or regulatory policies as to whom they can serve such that farmers have to meet income or net worth guidelines. Many organizations lack the capacity to respond to emergency needs, due to fixed budgets, and find themselves offering assistance on a "first-come, first-served" basis until the funds are quickly depleted, at which point, late-comers are turned away. In private organizations, assistance may be predicated on or influenced by membership within a particular organization. However, private organizations may have a greater latitude or flexibility in their response.

Because the severity, duration and timing of a farm economic crisis are largely unknown and have been historically infrequent in the past 50 years, it is a constant challenge to predict the mix and amount of resources needed to mount an adequate response until the crisis is underway. Coupled with the removal of a "farm safety net" previously provided by the federal government's farm program, new questions arise concerning how state government should respond to these changes. In general terms, none of Iowa's service providers has as their primary, core mission to offer assistance to struggling farm families. It is generally the role of a committee or subunit within the agency or organization, but not a core mission. To date, crisis management has been characterized as a short term and limited response.

Additionally, there is not an organization or system that formally and strategically links service providers together to respond to farm family needs in a coordinated fashion. When direct coordination occurs, it is normally on an informal, periodic or ad hoc basis. Otherwise, traditional service provider roles serve as the only guidelines for response.

In general, the Task Force believes that human services provided to the agricultural sector should be administered within the existing framework with appropriate expansion and adaptation when necessary and with additional funding provided.

As a functional matter, Iowa farm family service providers could be placed under the following headings: 1) financial and technical assistance 2) mental health assistance, 3) religious and spiritual assistance, 4) Iowa workforce development, 5) legal assistance, and 6) mediation services.

Financial Assistance

Financial assistance may include services to analyze a farm operation and make recommendations or assist with the availability of credit. The Iowa State University Extension's Farm Financial Planning Program provides an analysis of the current farm operation or potential alternatives, and determines the most advantageous options if exiting farming. In addition, aspects of financial assistance include the availability of guaranteed loans from the Farm Service

Agency {FSA), the Iowa Agricultural Development Authority and credit availability and management assistance from banks. In extreme cases, farmers are eligible for federal and state welfare programs.

Services for farmers transitioning out of agriculture are an important component of the services provided to farmers in stress. This aspect is discussed in more detail in Part IV.

A key issue is that FSA estimates that it will be short approximately 40 percent on available loan dollars. However, FSA plans to ask for a supplemental allocation in 2000. A related issue is that FSA has 200 fewer employees than in 1996 and this reduction in staffing makes it difficult to complete the work associated with distributing the emergency assistance funds. FSA has hired 370 temporary employees to assist with the workload.

As a result of the depressed farm economy, the USDA Rural Development program has seen increased demand from farmers needing assistance in serving new and niche markets. Consequently, three additional staff have been trained to assist farmers with Value Added Agriculture. Other efforts include providing value added agricultural training for all staff, using 30 percent of the national grant money for value added agriculture projects and partnering with RECs to develop value added agriculture projects that have high electricity demands. Unfortunately, Rural Development will have fewer dollars for staffing during FY00.

Mental Health Assistance

Mental health assistance includes services to assist families struggling with depression, stress or anxiety by phone consultations or referrals to local health experts. Mental health assistance may touch on rural families contemplating divorce, concerns about suicide, problems with children at school and elsewhere. In general, mental health assistance is an outlet for families searching for initial assistance in rural areas where assistance may not be immediately available. There are currently 32 community mental health centers providing mental health services (see listing in the appendix). Service providers estimate that there has been a 13.5 percent drop in direct service capacity with a 2 percent increase in administrative costs. At the same time, there has been a 12 percent increase in service requests. Under the current farm situation, the number of emergency calls that are agriculturally or small business related have increased and now account for 25 percent of the calls.

The Iowa Concern Hotline, which is coordinated by ISU Extension, is a 24-hour, toll-free hotline that provides information and referral, stress counseling and legal education. Currently the hotline is receiving over 800 calls per month of which 74 percent are agriculturally related. The legislature allocated one-time funding to the Hotline for FY99 which significantly increased the Hotline's visibility and capacity.

Legal Assistance

Legal assistance includes service from a variety of agencies and programs. The Iowa Attorney General Environmental & Agricultural Law Division addresses fraud, provides legal support for farmers in crisis and proactively addresses issues such as contracting and new

technology. The Legal Services Corporation of Iowa (LSCI) farm attorneys help farmers resolve their problems with the Farm Service Agency, banks, suppliers and other creditors. Recently the LSCI received funding to increase its capacity by 600 percent, which will allow service to 200-250 families during the year 2000. Other programs provide legal referrals.

Workforce Development

Workforce development includes analysis of farm family members' skills who may be considering re-entering the off-farm workforce, and possible re-training for local labor needs. The specific program that addresses a farmer's needs is Farm Focus. Farm Focus is funded by grants through the Department of Labor and operates under the authority of the Iowa Department of Economic Development. In recent years, the grant guidelines were changed and only farmers who are dissolving their farming operation are qualified to receive the benefits. This change in federal guidelines has significantly reduced the number of farmers who qualify for the program. Farm Focus receives numerous inquiries from farmers who would like to participate in the program without having to dismantle their farming operation. Unfortunately, Farm Focus is unable to assist farm families at an early stage because of eligibility restrictions.

Religious and Spiritual Assistance

Spiritual and religious assistance includes individual counseling by pastors/priests, support groups and direct financial assistance. Many religious organizations provide some social services to farm families, although their staff may serve multiple counties and rely on trained lay people.

Mediation Services

The Iowa Mediation Service provides mediation services for farmers who are involved in disputes. Iowa law requires all agriculture debtor-creditor cases and nuisance suits to go through mediation before filing action in the courts. This statutory authority was called into question this year by a federal district court opinion that there was not a jurisdictional requirement for mediation. The impact of this ruling will allow nuisance suits and debtor-credit suits to bypass the mediation process. The Iowa Mediation Service workload has stayed constant during the last five years. Caseload has increased 5 percent from last year and it is expected to increase again between January and March. Service staff are concerned that farmers appear to have "shut-down" and do no preparation prior to mediation and that they want somebody else to make the decisions. The Iowa Mediation Service receives funding from the Iowa Executive Council and from the federal government. Unfortunately, the federal funding is scheduled to expire in June of 2000. In addition there are often delays in receiving state funding for mediation services. The Iowa Mediation Service needs consistent funding in order to meet demand.

Recommendations

The following recommendations have not been prioritized by the Task Force. These are made with the assumption that the current farm legislation will remain largely unchanged.

1. Consideration of the development of a statewide interdisciplinary team to direct comprehensive coordinating and helping networks between a variety of specialties including mental health, substance abuse, mediation, agricultural law, clergy, DHS, Extension and community action agencies. The primary responsibility of this group will be to legitimize, on a local level, the necessity of coordinating interdisciplinary care. This group would be charged with the responsibility of sponsoring training and consultations to enhance formal and informal helping networks for the farm community in order to increase capacity and access in response to rural economic dilemmas.
2. Increased funding from state or federal sources for the Workforce Re-training Programs in rural areas, as well as the programs on counseling and mental health that affect struggling farm families, and programs that help farm families properly assess their financial status.
3. Consideration of methods to improve funding from state or federal sources to state service providers in times of rural economic troubles, including the use of economic "triggers" that would automatically allocate additional funds for mental health counseling, etc. The economic triggers may be predetermined commodity price levels or an index of farm economic health.
4. Recommend that three actions be taken to ensure the use of mediation for agricultural disputes:
 - a. Provide state funding at \$100,000 for the Iowa Mediation Service;
 - b. Reauthorize federal state mediation programs (due to expire in June, 2000) and provide funding at \$250,000 for the state;
 - c. Clarify that Iowa law has a jurisdictional requirement for mediation before nuisance or debtor-creditor cases can be filed in court.
5. Recommendation that statewide funds be set aside to implement a limited state supported voucher system of up to \$150,000 per year which would have a sunset provision at the end of three years. This voucher system would be utilized to provide funding for necessary outpatient mental health services with a certified mental health professional. The voucher system would reduce the red tape associated with securing county and state funding for farm related mental health crises and would be sensitive to the cultural issues which exist in accessing services for this target population.
6. Fund the Farm Financial Planning program provided by Iowa State University at a maintenance level (approximately \$35,000 per year). This program helps farmers evaluate their farm business and determine whether or not a change is desirable. The computer analysis looks at profitability, liquidity, solvency, and risk-bearing ability. The information is provided for the current operation and for plans involving alternative enterprises. This funding would allow the trained associates to work with approximately 200 farm families.

7. Continue to support and develop programs to increase awareness of value-added opportunities, and better service those communities and firms that are undertaking value-added agriculture initiatives. Successful efforts in value added agriculture are often community-based and involve partnerships between a variety of agencies such as the Iowa Department of Economic Development, Iowa Department of Agriculture and Land Stewardship, Iowa State University, and farm organizations.
8. Recommendation that the Iowa Concern Hotline provided by Iowa State University Extension be funded at \$50,000 per year which would allow the Hotline to increase capacity.

IV. Price and Income Policy Recommendations

Objectives

This portion of the Task Force report addresses needed changes to U.S. farm policy that can be accomplished in the intermediate term—one to five years. Although the focus is on the intermediate term, it is essential that public action on food and fiber, natural resources and rural issues be consistent with longer term societal objectives.

Background

Net farm income in Iowa and throughout most of the Midwest and Great Plains fell sharply in 1998—a decline in excess of 30 percent from year earlier levels. For many farm businesses, the reduction in income was even more abrupt, reaching 150 percent in some cases. This collapse came on the heels of two strong income years—1996 and 1997.

Current income projections from the Food and Agricultural Policy Research Institute (FAPRI) at Iowa State University suggest that real net farm income for Iowa will remain below 10-year trends for at least the next five years -- barring some weather catastrophe. Farm-level analysis from Iowa State also indicates that 30 to 50 percent of Iowa's commercial family farms are likely to experience continued losses and face the risk of financial failure under these projected conditions. Moreover, the financial vulnerability of these stressed operations is not likely to be significantly reduced by the large scale cash infusions provided by the federal government in 1998 and 1999.

Since the current downturn began, the FAIR act has been a lightning rod for public debate on farm policy. This legislation has been castigated by some as the fundamental cause for reduced farm incomes. Its supporters argue that the policy is appropriate for a highly competitive global economy. The blame, they say, lies at the feet of Washington politicians and public officials who failed to develop adequately the export markets for our increased production and on macroeconomic conditions that would have swamped any farm policy. Both sides would likely agree that the existing situation, one of widespread farm financial stress and massive federal bailouts, suggests that something is amiss.

In our view, current US farm policy fails to adequately address two fundamental problems that underlie financial stress -- excess capacity and structural change in the food industry. In addition, a third policy area, the production of environmental goods and services by farmers, must also be addressed because it is inextricably linked, economically and politically, to excess capacity and structural change.

Since, at least the early 1950's, U.S. agriculture has struggled with excess production capacity—the consequence of rapidly advancing agricultural productivity in the face of inelastic demand for agricultural commodities. Although consumers benefited from excess capacity through ample, low-cost food supplies and the productivity of resources no longer trapped in providing basic food needs, many farmers and rural communities were adversely affected by these changes. Consequently, the role of farm policy in this setting was to manage excess capacity and reallocation of resources in ways that didn't wreak havoc on rural areas or fully eliminate the economic gains experienced by consumers.

Adjustment Process Under the FAIR Act

The apparent theory behind the FAIR Act as to manage excess supply by allowing low prices to squeeze producers in the "periphery" areas sufficiently to cause a land use shift to other uses including, if prices fall sufficiently, a shift to grazing land. That shift represents a major move for producers with less economic buoyancy feared, long term, and different equipment and skills needed. The immobility and specialized nature of some agricultural resources (notably land) makes the adjustment problem more difficult. For those reasons, producers in the peripheral areas have been slow to adjust land use patterns. The squeezing phenomenon is felt by producers everywhere, including those on the best soils. But the failure or exit of a producer in the better, more productive soils contributes little, if anything, to supply reduction. Someone typically acquires the land in question and produces as much (or even more) on the land. Thus, progress in reducing supply must occur principally in the peripheral areas and will be accompanied by significant declines in income and wealth (because of land value impacts) for all operations.

Figure 1 illustrates that, for corn, there is a "core" area of production and a "swing zone" at the periphery. A similar pattern exists for each major crop. That zone of thinner soils, steeper slopes and less favorable weather conditions at the periphery of major crop producing regions becomes a swing factor in production. In times of good prices, the periphery swings back into production; when prices fall, the area is again squeezed out of production. Thus, *adjustment is not expected to be a one-time proposition.*

The FAIR Act adjustment process is one model of adjustment, essentially a "bottom up" approach to adjusting output. Nothing is assured to producers and when economic circumstances warrant, the price system signals to producers (or some producers) that production is needed. This system produces a painful adjustment for all producers on the downside with limited upside potential (because producers in the periphery are poised to return to intensive crop production when economic circumstances warrant). All of this may be rational, economically, but it adds enormous uncertainty for producers and rural communities.

massive investments by large corporate food companies significantly reduce the ability of the production sector to adjust output. This is discussed in detail in Part V.

The following policy recommendations are made within a time horizon of three to five years. Although we are fully aware of political and fiscal realities, we have tried to not let these constraints dominate our proposals.

Major Policy Thrusts

Influencing output and improving farm income. The Task Force agrees that farm income needs to improve and be made more stable. The consensus is that the FAIR Act needs some fine tuning if that is to be accomplished. The Task Force believes that higher crop prices can occur under five possible changes in circumstances—

- Dramatically improved domestic demand, which is highly unlikely.
- Bad weather in major production regions (which is not something that can be predicted).
- Better export levels, which, at the moment, do not appear to be imminent.
- Widespread shifts in land use from low prices (which would last only as long as low prices persist).
- A change in policy.

Recommendations

The Task Force believes that the near-term focus should be on the latter point and recommends five areas for action—

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. While it is important, long-term, not to distort resource allocation unduly, the low crop prices in recent months suggest that short-term programs to encourage farmer-held reserves are justified. In the face of favorable weather and declining exports, producers (and others in rural communities) are vulnerable. A supply-demand balance could well be achieved only at very low price levels. That condition could continue for some time.

The Task Force is highly supportive of policies to provide economic incentives to build on-farm storage facilities and to maintain commodities in storage beyond the year of production including—(a) low interest construction loans, (b) storage payments and (c) availability of a substantial part of the commodity value (the loan rate amount) to the producer.

The Task Force acknowledges that the complexity of commodity storage is likely to increase with pressures to exploit niche crops and pressures from identity preservation including

genetically modified commodities. Thus, storage programs should display a modicum of flexibility with a likely need for some smaller capacity storage facilities.

The Task Force is not unmindful of the budgetary costs of an expanded loan and commodity storage program; however, the social costs of doing nothing could be very significant.

Variable term land idling. Variable-term land idling (from as short as three years up to 20 years) designed to be particularly attractive in marginal production areas in the so-called periphery or "swing zones" is one possible shift in policy. The "swing zones" are the regions that are expected to be squeezed out of intensive crop production in times of low prices but get back into production when prices recover. Long-term land idling could help ease the economic and social costs of adjustment in those areas. It would mean reduced 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. The contracts could be set to terminate if prices rise above a specified level. Another alternative would be to allow farmers to bid land out of production on an annual basis with the reward of a higher loan rate on the rest of the farmer's production.¹ That option would be market-oriented and, under one proposal, would give farmers an option of idling up to 30 percent of their corn, soybean, wheat, cotton or rice acreage. For corn, soybeans and wheat, each one-percent set aside would be rewarded with a one percent loan rate increase. An analysis by the Food and Agricultural Policy Research Institute indicates that the program would boost farm income by \$5.4 billion per year at present at a budget cost of \$2.5 billion.

As discussed in more detail in Part VI, the Task Force recommends that authorization (and funding) for the Conservation Reserve Program (CRP) be increased to a minimum of 40 million acres. The Task Force is supportive of a level of up to 45 million acres for the CRP program as a program delivering environmentally-important benefits with a significant effect also on commodity supply.

For both the CRP and variable-term land idling, the Task Force urges that all land in the programs be subjected to strict conservation compliance measures.

Standby authority. If prices of major crops were to remain for a specified period below a designated level (with both aspects determined within a legislative framework) standby authority should be given to the Secretary of Agriculture to implement an acreage set aside program. This is viewed as a last resort measure to cope with pressures on the supply side. One thing 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.

What about the argument that idling land spurs production in other countries? First, low prices are affecting producers everywhere. Modest efforts to ease downside pressures are unlikely to have an impact in other countries. Second, it seems imprudent to bankrupt a third of our farmers in an effort to discover who will remain as the least-cost producers. Finally, the time has come to begin moving toward a global food and agriculture policy with the U.S. using the

¹ The Task Force is indebted to Craig Blindert, Salem, South Dakota, and Phil Cyre, Hazel, South Dakota, for development of the "flexible fallow" program.

leverage of financial assistance through various aid programs including the World Bank to secure commitments that major exporting countries will take comparable steps whenever reduction in supply is necessary.

It is pointed out that virtually every corporation in the world adjusts inventories by occasionally laying off employees and idling production capacity. From 1938 through 1995, the agricultural sector did the same with the Secretary of Agriculture playing a surrogate CEO role to reduce output by idling productive capacity. That possibility was swept away in 1996; U.S. agriculture lost a tool now being used by Deere, Firestone, New Holland and hundreds of other U.S. companies. The Task Force acknowledges that private sector firms, in general, idle productive capacity in an economically and environmentally rational manner and believes that idling of productive capacity in agriculture ideally should focus heavily on environmentally sensitive and lower productivity soils.

Financial assistance. Loan guarantees and interest assistance programs are a proved, cost-effective way to target assistance to financially stressed farm operations. The loan guarantee, through eligibility rules and underwriting requirements, can be used as an incentive for lenders and their farm borrowers to restructure financially failing businesses. Further, the guarantee is a contingent claim, rather than a direct outlay of funds. Similarly, interest assistance targets income subsidies to financially stressed businesses – but with the requirement that interest assistance is provided only after the business has been restructured and can be shown to meet its cash obligations. Loan guarantee programs for farm businesses are offered primarily by the Farm Service Agency and the Small Business Administration. The FSA has two loan programs that are specifically tailored toward traditional family farming operations. The main two programs are FSA Guaranteed Farm Ownership Loans and Farm Operating Loans. These are a good example of public-private partnerships since banks and other private lenders are the main providers. Since 1980, over 48,000 farmers and ranchers have received 65,000 loans using the guaranteed program resulting in \$6.8 billion dollars outstanding. These loans are virtually all directed toward family farming operations and are mainly used to:

- Expand the farming operation
- Restructure debt to improve cash flow
- Assist younger farmers in getting started

The Task Force recommends that FSA:

- Fund the programs adequately,
- Increase funding for the interest subsidy program, especially for young and beginning farmers,
- Continue to streamline the programs and provide regulatory flexibility,
- Remove the 15 year borrower eligibility limit, and
- Organize an annual stakeholder's meeting with USDA.

In addition, the Task Force recommends that eligibility requirements for both FSA and SBA programs be carefully examined to ensure that larger, family owned farm businesses – particularly multiple-generation family operations can be considered for guarantees and interest assistance. With a strict limitation of these programs to "small" family farms, policy makers run the risk of jeopardizing the very businesses that have a reasonable chance of competing against large investor-owned operations.

USDA should re-commit itself as the "lender of last resort" by focusing greater attention on serving the credit needs of smaller (family) and beginning farmers.

Congressional budget actions have hampered USDA direct lending programs and curtailed the ability of USDA to live up to its mission of assistance to America's family farms. Commercial banks realize virtually the same costs (paperwork and out-of-pocket costs) to create a \$10,000 FSA guaranteed loan as to create a \$250,000 FSA guaranteed loan (under the same program) The income is, of course 25 times higher for the larger loan. Hence, small-sized loans and loans which banks are not comfortable with, are increasingly rare. The USDA farm credit program was created to provide a "lender of last resort" to America's smaller farmers. Moving away from the direct lending portion of this program has done much to thwart this original mission.

To deal with a possible credit crunch in the Spring of 2000 and the Spring of 2001, adequate funding for FSA direct lending and loan guarantees is needed.

LDP and marketing loans. Finally, if it seems prudent to continue LDP and marketing loans, possibly with a higher loan rate (at relative levels that are economically appropriate among the commodities), loan rates should not be significantly higher than the cost of production on marginal lands. Policy should certainly not induce more production; that would be perverse.

It is important to note that any programs to ease the downside adjustment pressures (LDPs, marketing loans, AMTA payments, additional Congressional appropriations—as in 1998 and 1999—or any other effort) frustrate the market and prevent the market from doing its thing—squeezing out land and causing the land to shift to a less intensive use.

Green payments. The Task Force also urges implementation of a program of "green payments" to encourage socially desirable soil and water conservation practices. The Task Force stresses that the stewardship of the nation's soil (and water) resources is a socially and economically important function with payment incentives orchestrated to achieve the desired level of environmental quality.

Crop insurance. The Task Force is highly supportive of crop insurance programs as risk management devices *within the range where risks are truly insurable*. The Task Force is convinced that crop insurance is inherently unable alone to solve the problem of low farm income without massive subsidies. Therefore, the Task Force believes that crop insurance programs should be reformed to assure that such programs not induce additional production in marginal areas and that the programs be designed to provide an efficient risk-shifting device for producers and others.

Targeting farm income assistance to those in need. The current system of farm income assistance has little to do with the degree of need on the part of producers and landowners. Subsidies for agriculture are usually defined in relationship to sectoral level objectives. Moreover, subsidies are allocated on the basis of some historical acreage or production measure that is directly correlated to farm size. For 1999, federal subsidies returned national net farm income to levels achieved in 1997—a near record year. However many financially stressed operations will not be assisted in a meaningful way through these record expenditures. This suggests some type of needs-based testing for farm subsidies or other form of assistance. For example, increased use of guaranteed loans and interest assistance can target support directly to financially stressed operations through specific eligibility and underwriting requirements.

An alternative view is that need-based subsidies simply offer support to inefficient operations and are, therefore, counter to the needs of the industry. Further, national policy objectives and, indeed, political support requires that income assistance be broadly distributed without any targeting mechanism.

The Task Force recommends that the federal farm program payment limitations (in effect before the 1999 amendment increased the limits) be maintained on a permanent basis.

Increase human capital in farming and rural communities. Ensuring the continued professional and personal development of farmers, agricultural managers and rural families is an essential objective of intermediate-term farm policy. The Task Force has listed specific needs in several sections of this report.

Incorporate a broader set of issues into agricultural policy that are relevant to international relations and U.S. society. Many of the key causes of food, rural and natural resource problems cannot be adequately addressed through traditional farm policies. Macroeconomic conditions, armed conflict, authoritarian regimes and poverty, for example, have a major impact on food security and farm incomes around the world. We, therefore, urge that farm policy be viewed in a broader context that recognizes the global nature of agriculture and the complex interdependencies that determine the efficacy of farm policy.

Support transition out of and into agricultural production. In production agriculture, policy makers need to provide support for farmers who wish to leave the industry to pursue other opportunities or retire and to address the transfer of farm businesses from one generation to the next. In that regard, we make the following recommendations—

1. Farmer transition services. Professional services can assist transitioning farmers to leave agriculture for a variety of reasons. Some of the primary reasons relate to age, health, lack of opportunity for expansion, other occupational opportunities and financial or other types of stress. Many times it is a combination of one or more of these reasons. No matter what the reason, leaving and liquidating the farming operation can be a very difficult and complicated task and takes a good deal of planning and assistance. The needed services for those who want to continue to farm include the following:

- (a) Small Business Development Centers, institutions of higher education and the private sector: To assist farmers in planning for a more successful farming enterprise or in planning for an alternative business enterprise.
- (b) Career Planning Services: To assist farmers in identifying their skill areas.
- (c) Educational and Technical Training: To access training and education to further develop identified skills.
- (d) Job Service: To assist them in identifying good employment opportunities and training them in interviewing and the other skills needed to obtain good jobs.
- (e) Mediation Services: To give farmers assistance in dealing with creditor or other complicated issues that confront them.
- (f) Tax and Financial Planning Services: To assist farmers in planning ahead to avoid excessive taxes, to get the best return from their assets and work on the liquidation of their debt.
- (g) Legal Services: To assist them in working out existing legal problems and to avoid getting into new ones.
- (h) Counseling Services: To help farmers with personal stress, mental health issues, family stress issues, marriage issues and other health issues that currently exist or that may arise.
- (i) Social Services: To assist financially stressed farmers with day to day living issues such as food, health care, clothing and shelter.
- (j) Advisory Services: Organizations such as the extension service to point farmers in the right direction on any issue that confronts them.

2. *Farm transfer.* Along with the FSA programs, 15 states, including Iowa, offer state industrial revenue bonds for agricultural borrowers (Aggie bonds). Aggie bonds provide a cost-effective means to provide reduced interest rate loans to young and beginning farmers for capital purchases of farmland, facilities and equipment. Aggie bonds can be utilized by both the lending community and by retired farmers to assist young and beginning farmers. Iowa and other states need to do the following:

- (a) Continue to educate the banking community and retiring farmers about Aggie bonds;
- (b) Encourage the removal of the federal industrial revenue bond cap on Aggie bonds;
- (b) Allow the USDA and SBA to place guarantees on Aggie bonds.

V. Structural Problems in Agriculture

The Problem

Another area that is not adequately addressed in current policy is the rapid consolidation and increased coordination of the food chain. Recent mergers and acquisitions such as Cargill's bid to purchase the domestic grain operations of Continental Grain and Smithfield Food's purchase of Murphy Family Farms have raised concerns at state and federal levels. Restructuring the food sector is being driven to a large extent by the capacity of agricultural input and processing firms to create and capture value through advances in biological and information technologies. This process has been graphically portrayed over the past decade in the pork industry and earlier in the broiler industry. Large scale food companies, coordinated more by managers than by markets, have wrung many inefficiencies out of pork production, processing and distribution. Again, consumers may benefit from lower cost and more uniform pork products. However, restructuring also brings with it growing concerns over a host of related issues such as environmental degradation, market power in food production and the deskilling of farmers to mention a few. Reversal of these developments is not likely to occur without some type of public action.

A fundamental structural problem is that neither the Department of Justice, Antitrust Division, nor the Federal Trade Commission is fully conversant with the unique features of and competitive challenges facing the agricultural sector. Moreover, the traditional analytical approaches employed in recent decades have emphasized the impact of mergers, acquisitions and alliances on consumers, not on producers. Although trends now well established could ultimately pose threats to consumers, the immediate concern is the threat to producers as independent entrepreneurs.

Role of competition. 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.

Farm size and structure. One facet of the structure is what is likely to happen with respect to size and control of farming operations. While it is believed that cropping operations will continue for some time to be dominated by family-owned and operated firms, the stage is set for a great deal of consolidation of farming operations over the next few years. It appears likely that, absent implementation of countervailing policies, farm size will continue to increase, perhaps on an accelerated basis, for three reasons—(1) the pressure to spread machine costs over more acreage and to achieve economies in purchasing inputs and selling outputs; (2) the desire to

achieve higher income levels; and (3) the present levels of concentration of land ownership in older hands.

It should be recognized that the competitive effect of a particular operation is essentially the same whether located in the same section or across the country. If the product involved is sold into a national commodity market, the competitive impact is similar wherever located. Indeed, to the extent the product involved is traded in an international market, the effect of low cost operations on the sector is the same wherever production occurs. This suggests that there are practical limits on the extent to which one state, acting alone, can deliberately influence the structure of the subsector. Long term a state can impose additional costs, direct or indirect, on a firm only to the extent that the state enjoys an overall competitive advantage over production in other states. Costs imposed beyond that point would be expected to cause new investment to be made elsewhere.

Although rarely used, another policy alternative for influencing structure would be to affect the cost curve for certain operations, perhaps those above a specified size or scale. This discussion has typically centered around (1) use of property tax increment financing incentives and (2) granting of property tax preferences of family farm operators and agricultural buildings up to a specified amount.

Cost curves could be raised for larger, more efficient firms to remove any perceived cost advantages by imposing a tax on facilities, use of inputs or outputs produced. Long-term, if done uniformly over the entire market, the result would be higher costs of the end products to consumers or lower profits or both. Justifications for such action may either include recovery of public costs associated with externalities of larger operations or structural preferences of the public.

Another approach would be to impose additional requirements on firms above a specified size or scale, perhaps relating to waste handling and disposal, which would impact the cost curve of firms. It should be noted that, in both instances, the effect could be a competitive disadvantage for a state imposing additional requirements unless the measures were imposed uniformly over the production area comprising the market for the product.

A contrasting policy response is to provide a subsidy for smaller producers to assist in defraying costs of environmental compliance as is now available under the Environmental Quality Incentive Program (EQIP) authorized by the 1996 farm bill. Half of the funds allocated under the EQIP program must be directed to environmental problems of livestock production. Large operations with greater than 1000 animal units are not eligible for cost sharing under the program. Alternatively, providing subsidies to institutions that provide small farmers with access to critical factors of production, capital or markets represents an indirect response to achieving a similar end.

Concentration in seed, chemical and food companies. Mergers, alliances and various other forms of arrangements are reducing the number of players in input supply, particularly in seeds, and increasing the level of concentration. Figure 2 shows the extent to which arrangements between and among the major firms in the seed area have come to permeate the input supply sector. While the level of mergers, alliances and consolidations is not a completely reliable

Figure 2. Concentration in the Seed Business

- I. Astra Zeneca * (United Kingdom)²
 - A. Advanta BV □ (August 1996, 50% Equity)
 - 1. Cooperative Cosum UA # (August 1996, 50% Equity)
 - 2. VandeHave + (August 1996, 100% Equity)
 - 3. Interstate Payco + (August 1996, 100% Equity)
 - 4. Garst Seed Co. + (August 1996, 100% Equity)
 - B. Mogen International NV + (June 1997, \$78M, 100% Equity)
 - C. ExSeed Genetics LLC + (December 1997, 30% Equity)

- II. Aventis SA * (France)
 - A. Hoechst AG * (December 1998, Joint Venture 50% Equity)
 - B. Hoechst Schering AgrEvo GmbH □ (Dec. 1998, Equity to be decided)
 - 1. Schering AG * (January 1994, 47% Equity, \$161M)
 - 2. Plant Genetic Systems International (PGS) ■ (Aug. 1996, 75% Equity, \$550M)
 - 3. ProagroGroup + (February 1999, 100% Equity)
 - 4. Kleinwanzlebener Saatzucht AG (KWS) + (12% Equity)
 - a. Great Lakes Hybrids, Inc. + (1988 50% Equity, 1993 80% Equity)
 - C. Rhone-Poulenc SA * (Dec. 1998, Joint Venture, 50% Equity)
 - 1. RhoBio □ (March 1998, 50% Equity)
 - 2. Groupe Limagrain # (15% Equity)
 - a. Biogemma □ (1997, 56% Equity)
 - (1) RhoBio □ (March 1998, 50% Equity)
 - (2) Pau Euralis + (1997 acquired 25% Equity in Biogemma)
 - b. Callahan Seeds + (July 1994, 85% Equity)
 - c. King Agro Inc. + (June 1994, 100% Equity)
 - d. Nickerson Seeds + (October 1990, 100% Equity)
 - e. Biotechnica International, Inc./LG Seeds + (October 1998, 80% Equity)
 - f. Mais Angevin + (99% Equity)
 - g. Akin Seed Co. + (March 1994, 100% Equity)

- III. Dow Chemical Company * (United States)
 - A. Verneuil Holding SA + (December 1996, \$9.4M, 18.75% Equity)
 - B. Advanced Agri Traits □ (March 1999, 83.6% Equity)
 - C. Illinois Foundation Seed, Inc. + (Acquired 16.4% Equity in Advanced Agri Traits in March of 1999 and 29% of its Equity was acquired by Dow in March 1999 for \$15M)
 - D. Mycogen Corporation + (Jan. 1996, \$158M, 47% Equity; Dec. 1996, 416.8M, 51% Equity; Mar. 1998, 440.1M, 68% Equity; Oct. 1998, \$322M, 100% Equity)
 - 1. Dinamilho Carol Productos Agrícolas Ltda. + (Apr. 1998, \$32M, 100% Equity)
 - 2. Híbridos Colorado Ltda. FT Biogenetics de Milho Ltda. + (Sept. 1998, 100% Equity)
 - 3. Morgan Seeds + (Sept. 1996, \$34.5M, 100% Equity)
 - 4. United Agriseeds, Inc. + (Feb. 1996, \$72M, 100% Equity)
 - E. Dow/Danisco JV □ (Dow Agri Sciences LLC, May 1999, 50% Equity)
Also owned by—Danisco Seed + (May 1999, 50% Equity)

- IV. E.I. DuPont de Nemours & Co. * (United States)
 - A. Hybrinova SA + (April 1998, 100% Equity)
 - B. Protein Technologies International ■ (Dec. 1997, \$1.3B, 100% Equity)
 - C. Optimum Quality Grains, LLC □ (August 1997, 50% Equity)
 - D. Pioneer Hi-Bred International, Inc. + (August 1997, \$1.7B, 20% Equity)

² Announcement in December, 1999, that all components other than Garst Seed Co. to be spun off into new entity. Syngenta, along with Novartis units.

Figure 2. Continued

1. Optimum Quality Grains, LLC ☐ (August 1997, 50% Equity)
 2. Dois Marcos + (March 1999, 100% Equity)
- V. Monsanto Company *³ (United States)
- A. Hubri Tech Seed Int'l., Inc. + (1982, 100% Equity)
 1. HybriTech Europe SA ☐ (Feb. 1996, 90% Equity)
 - a. Paul Euralis + (Feb. 1996, 10% Equity)
 2. AgriPro Seed Wheat Division + (July 1996, 100% Equity)
 - B. Jacob Hartz Seed Co., Inc. + (1983, 100% Equity)
 - C. Sementes Agroceres SA + (Nov. 1997, \$150M, 100% Equity)
 - D. Agracetus, Inc. ■ (April 1996, \$150M, 100% Equity)
 - E. Delta & Pine Land + (May 1998, \$1.9B, 100% Equity, Nov. 1998 Share Exchange)
 - F. Calgene, Inc. ■ (Apr. 1996, \$30M, 100% Equity; Nov. 1998, \$50M, 5% Equity; May 1997, \$242M, 45% Equity; Total Cost \$322M)
 1. Stoneville Pedigreed Seed Company + (Announced Auction, Jan. 1999)
 - G. Holden's Foundation Seeds + (Jan. 1997, \$1.02B, 100% Equity)
 1. Corn States Hybrid Service, Inc., Corn States International Sarl. +
 - H. Monsoy ☐ (Nov. 1997)
 - I. DeKalb Genetics Corporation + (March 1995, \$1.2M, 40% Equity; May 1998, \$2.5B, 100% Equity; Total cost \$3.7B)
 1. Custom Farm Seed + (July 1997)
 - J. Asgrow Seed Company LLC + (Nov. 1996, \$240M, 100% Equity)
 - K. First Line Seeds, Lt. + (June 1998)
 - L. Plant Breeding International Cambridge, Ltd. ■ (July 1998, \$525M, 100% Equity)
 - M. Cargill's International Seed Division + (July 1998, \$1.4B (est.))
 - N. Renessen ☐ (May 1999, \$100M, 50% Equity, Joint Venture)
Cargill, Inc. + (May 1998, \$100M, 50% Equity, Joint Venture)
 1. Cargill Hybrid Seeds +
- VI. Novartis AG * (Switzerland)⁴
- A. Wilson Seeds, Inc. +
Also owned by—U.S. Cooperative System: Cropland Genetics, FFR, GrowMark, etc. #
(Land O'Lakes, Nov. 1998, 50% Equity)
 1. Zimmerman Hybrids, Inc. + (1998, 100% Equity)
 - B. Sturdy Grow Hybrids, Inc. + (April 1998, 100% Equity)
 - C. Agritrading + (Aug. 1998, 100% Equity)
 - D. Maisadour Semences SA + (Dec. 1998, 40% Equity)
- VII. Other Companies +
- A. Crow's
 - B. Fielder's Choice
 - C. Golden Harvest
 - D. Stine Seed Co.
 - E. NC+

*Life Science Companies; + Seed Companies; ☐ Joint Ventures; # Cooperatives; ■ Other Companies
Source: Pioneer Hi-Bred International, Inc. and the Center for International Agricultural Finance, Iowa State University.

³ Announcement in December, 1999, that merger with Delta & Pine Land will not be consummated; remaining units to be separately structured (in merger with Pharmacia and Upjohn) with an IPO as to a portion of ownership.

⁴ Announcement in December, 1999, that units of Novartis to be spun off into Syngenta, a new entity, with some units from AstraZeneca.

indicator of competition, the fact that nearly \$15 billion of such amalgamations has occurred over the past four years, 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 seed suppliers.

But 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. 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 processes 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 and changes in intellectual property law, 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.

- 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.⁵ In addition to federal Plant Variety Protection (PVP)⁶ and simply shrouding research efforts with secrecy, the ability to patent life forms provides a powerful tool to keep competitors at bay while, at the same time, creating an incentive to innovate.

Effect of contracts. An important question is the effect concentration in the seed business and control by the few resulting firms over germ plasm 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 competitive effect may be minimal.

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 competitive effect is likely to be much greater. 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

⁵ *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (bacterium having unique genetic characteristics is patentable subject matter under the general patent statute).

⁶ Pub. L. No. 91-577, 84 Stat. 1542 (1970), 7 U.S.C. §§ 2321-2581.

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. Seed companies and other 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 would end up with a larger share of the revenue with more to capitalize into the stock of the input supply firms. Even if unique corn derivatives produce revenue of \$2 million per acre, for example, 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 is driving the intense push toward concentration in control over germ plasm that has occurred.

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.

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, 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 certificate or the duration of a patent over processes by which genetic manipulation occurs.⁷

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.

Vertical Integration of the Sector

The moves made by the major players, particularly the seed companies, 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 passed on to the integrator; (3) to enhance profits of the integrating firm; (4) to achieve greater market share on an assured basis; or (5) all of the above.

The combination of concentration in the input supply and output processing sectors suggests that producers in a contract-based agriculture are likely to experience economic vulnerability when contracts terminate unless meaningful competitive options are assured. Vulnerability is greater for producers with high fixed cost facilities or where debt is owed on the facilities.

Solutions

If sufficient public interest and political will are generated, three strategies are available.

Antitrust oversight. First, aggressive antitrust oversight at the federal level (and among the states) is the traditional way for proposed mergers and alliances 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 food producing sector, it is 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.

⁷ 7 U.S.C. §§ 2541(a), 2483.

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).⁸ 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.

Producer efforts to bargain collectively have been hindered by the fact that some processors and distributors are unwilling to negotiate with farmers as a group. A potential solution is to require good faith negotiations with farmers committed to networking together. Simple bargaining rights would help stop discrimination against farmers working together.

Section 1 of the Capper-Volstead Act of 1922⁹ provides protection from antitrust challenge for producers who seek to bargain collectively with seed companies and other input suppliers or with purchasers of commodities.

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."¹⁰ The Act goes on to allow "Associations [to] have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes."¹¹

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.¹²

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."¹³

The key question is whether producers will be willing to sacrifice independence of action in order to bargain collectively for access to seed and possibly, other inputs. The most likely avenue for such collective action is through cooperatives but the regional cooperatives seem not to be attuned to performing this function. The regional and larger local cooperatives are not

⁸ Capper-Volstead Act, 7 U.S.C. §§ 291, 292.

⁹ 7 U.S.C. §§ 291, 292.

¹⁰ 7 U.S.C. § 291.

¹¹ 7 U.S.C. § 291.

¹² *Id.*

¹³ 7 U.S.C. § 292.

necessarily acting on behalf of their members. The Capper-Volstead Act provides an exception from antitrust law for collective action by producers provided specified requirements are met.

More germ plasm in the public domain. Another potential solution is for the public to increase its support for crop (and livestock) breeding by land-grant universities and other public agencies with transgenic hybrids and varieties made available to smaller 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 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 dominance of seed supply by a few large firms, worldwide, could affect food costs by influencing the supply of food through contractual mechanisms.

State and Federal Level Issues

There are several structural issues that must be addressed if Iowa is to maintain the quality of rural life that has been the backbone of its cultural heritage. At first glance, these issues seem to cover a wide range of topics. However, at their core, all of these structural issues concern how Iowa will respond to the ever widening economic gap that exists between the entities that control the assets needed to produce food and the Iowans who are involved in production agriculture. The discussion that follows restates the major structural issues identified by the Task Force and then sets out the Task Force's consensus on the best ways to address those issues.

Concentration of economic power. Consolidation and increased levels of coordination in the agricultural sector can result in situations in which independent farmers and their businesses cannot compete. Therefore, we recommend the following steps be considered to increase the scope of anti-trust regulation and enforcement and to foster countervailing power between farmers and other entities engaged in contracting and other forms of business relationships:

1. Create a role for USDA under the Hart-Scott-Rodino Act to review mergers and provide a recommendation to the Justice Department on the impact of proposed mergers on independent producers and family farmers.
2. Provide broader protection for the sellers of commodities when considering the impact of mergers and acquisitions.
3. Examine proposed cooperative arrangements and vertical integration to protect the ability of independent producers to access markets.
4. Prohibit packer ownership or control of livestock at the federal level.
5. The goal of the Packers and Stockyards Act has remained constant: to protect livestock farmers by maintaining free and competitive markets. To attain this goal, a regulatory structure was developed in the early 20th century to address the inequities in market power

existing in the central stockyard system at that time. Times have changed and, today, livestock slaughter as a competitive challenge has been replaced by a rapidly integrating and consolidating sector that includes all facets of food production, processing and retailing. The Packers and Stockyards regulatory system needs to adapt its structure if it is going to effectively address these new challenges. The Task Force strongly recommends the following changes:

- a. Broadening the focus of the existing P&S system to include an express mandate to maintain free and competitive markets for farmers in all sectors (not just livestock and poultry) of the agricultural economy. The Task Force recommends the establishment of a Bureau of Competition in Agriculture and Agribusiness. The new Bureau should be given the authority it needs to effectively monitor, and if necessary maintain, competitive markets in all parts of the agricultural economy. Even more importantly, the Bureau must have the will (if necessary, by express statutory mandate) to use its authority;
- b. The Task Force believes that, ideally, the new Bureau of Competition in Agriculture should be located in the U.S. Department of Justice. Positioning the Bureau in DOJ would make it more effective in several ways. First, it would eliminate the potential for jurisdictional policy gaps that have existed in the past. Second, it would give competitive issues in agriculture access to the legal and economic expertise that exists in the U.S. Department of Justice. Finally, it would allow the development of a unified strategy addressing the consolidation and integration taking place at every level (especially in the food retailing sector) of the food production, processing and retailing chain. In fact, establishing the new Bureau could be the first step in developing a national food policy.

If the new Bureau were to be located in the U.S. Department of Agriculture, funding must be adequate to establish and maintain a highly professional staff of lawyers, economists and statisticians sufficient to engage, meaningfully, the competitive challenges facing the agricultural sector. The new Bureau of Competition must be adequately funded or it will not be able to finance the complicated enforcement actions against the well financed and consolidated entities that make up the agriculture/food sector of the economy.

Access to genetic material. The role of the private sector in agricultural research has expanded greatly over the past 30 years. Strengthening intellectual property rights has driven private agricultural research toward technologies that are based on proprietary inputs and away from those that rely on human capital or ecological knowledge, for example. Consequently, agricultural research and development, plus improved infra-structure and distribution systems, should be directed to products produced by sustainable technologies. These products—e.g., high-quality, niche and specialty foods—are meant to meet consumer demand for organically-grown foods and humanely-raised livestock.

The Task Force supports the proposed Plant Science Center at ISU as a means of developing publicly held germ plasm. However, the support must be conditioned on expressly requiring that the results of research done by the Center be held as public property, and that any revenue generated by the Center be returned to the Center.

If it is not possible to develop a viable public “gene pool”, changes may need to be made in existing federal law to protect farmers’ and the public's interest in access to genetic material. These changes include limitations on what is patentable, the patent term for life forms or the establishment of guidance when licensing is necessary to avoid anti-competitive consequences.

Inequities in market power. Concentration of economic assets in fewer and larger firms is changing many facets of rural Iowa. Unfortunately, absent quick action, most of the changes will not be positive. To that end, the Task Force sets out the following issues that should be addressed as soon as possible.

1. *Cost internalization.* Increased economic power has, at times, resulted in a failure to require large, vertically-integrated firms to internalize the costs associated with concentrated, vertically-integrated agriculture. Existing and new state laws should require (or at least encourage) a concentration and vertically integrated agriculture to pay *all* of the costs associated with their production. Examples include environmental, infrastructure, social, and taxation costs.

2. *Contract Production.* Another consequence of the increasing economic disparity between vertically integrated agribusiness entities and individual farmers is an increasing prevalence of production contracting, both in the livestock and crop sectors. As result of this fundamental change in the way Iowa farmers participate in the food production system, Iowa producers are forced to address the disparity in bargaining power and market information that characterizes most production contract relationships. The Task Force recommends several policy alternatives that would address these inequities.

- a. The elimination of production contract confidentiality and waiver provisions in production contracts executed from and after May 24, 1999, and the nullification of those clauses in contracts prior to that date, must be strengthened with anti-retaliatory legislation to further reduce farmers' fears of company retaliation for discussing contract terms or filing liens.
- b. Posting of all production contracts at a location and in a form readily obtainable by farmers seeking to learn what contracts are available and which best meet their respective needs. To this end the Farm Division of The Iowa Attorney General's office is in the process of constructing a website with copies of contracts the office has received, including those terms handwritten into the documents. It is the Attorney General's hope that this additional information will let farmers know the range of payments they might find within a given company's contracting scheme.
- c. If farmer are to have any chance of a level playing field, totally unconscionable contract provisions must be eliminated. The shifting of all environmental and most other liability from the company to the contract grower is a prime example of a widely-used, unconscionable provision. The producer’s lack of bargaining power all but guarantees that such changes must be instituted legislatively.
- d. A statutory system (similar to landlord tenant laws) should be enacted to address the market inequity that characterizes contract production systems. These protections

would focus on the recovery of a producer's capital investment required by the company and protections against retaliatory activity of the company. In addition, the system should mandate "good faith" dealing, and should establish a private right of action (the ability of the producer to bring a suit in court for damages) for a contract producer.

"Other" Structural Issues

In addition to the general areas of concern addressed above, the Task Force identifies several other issues that rural Iowa must face as a result of its need to adapt to forces caused by the economic consolidation presently affecting rural Iowa. Specifically, the Task Force is concerned that institutions designed to help rural Iowa are instead, being used to advance the interests of large economic entities. The Task Force agrees that several of those institutions needs to be re-focused to address the concerns of rural Iowans. Examples include the following:

Rural economic development. All of Iowa's rural economic development programs should focus on projects that result in increased equity in the hands of Iowans.

Utility de-regulation. Utility de-regulation should be based on how it affects rural Iowa, both now and in the future. See Part VII.

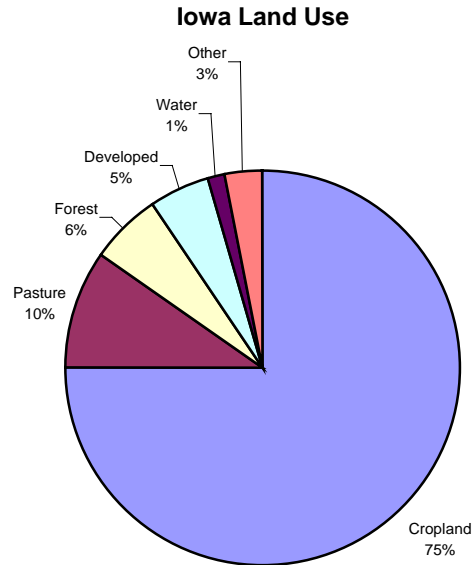
Farmer-owned cooperatives. Farmer-owned cooperatives (especially regional cooperatives) should serve, as opposed to competing with, their patrons.

Influence over the policy process. The Task Force agrees that, in general, increased concentration and market power are associated with greater influence over the policy process. This tends to dilute the influence of individual citizens and groups unable to afford representation in policy-influencing processes at all levels. Campaign finance reform is identified as the most effective method to, at least initially, address these concerns.

VI. Environmental Considerations

About 91 percent of Iowa's landscape is agricultural land -- cropland, pasture, and forests. Cropland alone covers 75 percent of Iowa's land area. It is not surprising then, that agriculture's effect on the environment is a pressing issue in Iowa. Indeed, in Iowa agriculture *is* the environment. This fact creates both problems and opportunities for Iowa's farmers. Farmers can face increased costs to deal responsibly with the effect their operations have on environmental quality. But farmers could also be rewarded for their uniquely important role as land managers and caretakers of Iowa's environment.

Our report puts forward a series of recommendations for state and federal action to (1) in the immediate term, help farmers defray the costs of improving the environmental performance of their operations, and (2) in the longer term, to create policies and programs that turn environmental management into income opportunities for Iowa's farmers.



The Task Force agrees that conservation and environmental quality are not adequately addressed in current farm policy at the state or federal levels. In addition to crops and livestock, farmers produce environmental goods -- water quality, recreational opportunities and scenic vistas to name a few. In an increasingly affluent (and well fed) society, environmental goods and services may well be as important a product for farmers as food and fiber. However, markets do not currently exist for many of these outputs. The creation of markets, or correction of market failure, is an important objective for public action.

Environmental policy is not a cause of current farm financial problems. Meeting legitimate public demands for clean water, clean air, and recreational opportunities could, however, increase the costs of producers already under financial stress. Good conservation policy and adequate funding can not only help farmers deal with their responsibilities as land managers but also could be an integral part of a comprehensive strategy to support family farmers and rural communities. Conservation and environmental objectives and opportunities should be aligned with our attempts to manage excess capacity, industry consolidation, and other objectives raised in this report.

Recommended Goals for Conservation Policy

The Task Force recommends that conservation and environmental management should become a primary objective of U.S. and Iowa farm policy. The goal of conservation policy should be to:

- Assist producers in meeting public demands for environmental quality including soil, water, and air quality; recreation; and mitigation of climate change.

- Assist producers in conserving natural resources to ensure a vibrant and productive agricultural economy.
- Create markets in which producers' role as natural resource managers can be recognized and rewarded.
- Assist producers in responding to natural disasters.

In the sections that follow, the Task Force makes recommendations for immediate action to include increased conservation technical and financial assistance as an integral part of other efforts to assist a troubled farm economy. This assistance should be designed to reduce the cost to farmers and ranchers of meeting increased demand for environmental improvement in their operations and to help them repair damage to their operations caused by flood, drought, disease, or other natural disasters. The Task Force also makes recommendations for longer-term reform to create state and federal farm policies that recognize farmers' unique roles as caretakers of Iowa's and the nation's landscape and environment. These policies should be based on the premise that environmental quality can be an income opportunity for farmers if we are creative enough to construct a set of public policies that reward farmers for producing environmental goods and services for the American people.

Recommendations for Immediate Action

Conservation assistance for a troubled farm economy. This year, millions of farm families are suffering as prices for their crops and livestock remain at historically low levels. Congress and the Administration are responding to this crisis on the farm by providing emergency financial assistance to help farm families weather this storm. Many of the recommendations in this report are intended to improve our response to this financial crisis.

But there is another farm crisis plaguing our country this year. On millions of acres, farmers and ranchers are struggling to meet their obligations as good environmental stewards and at the same time deal with declining prices for their products. Adding to their problems are millions of acres of farm and ranch land withering under severe drought, or seriously damaged by heavy rains. This other farm crisis is quieter, but just as devastating to the health of farm families and the land. This crisis threatens the health of lakes, streams, watersheds, and wildlife habitat as well as the long-term productivity of agricultural land. The environmental cost of the other farm crisis plagues farm families today and will plague all of us in the future.

In Iowa alone, over 150 water bodies are listed as impaired. Most are impaired by agricultural runoff. Over 4000 farmers need to write and implement manure management plans to meet water quality and other environmental objectives. Farmers want to be good stewards but need much more technical and financial help than can be offered today. Given the economic conditions in the farm economy, technical and financial help to meet environmental obligations should be an essential part of farm relief to ensure the long-term commercial viability of Iowa agriculture.

To make things worse, most experts are predicting our weather will become more extreme in the years ahead. This means farm and ranch families will face greater risk of damage to their working lands -- and all of us will face greater risk of damage to our environment. We can expect more runoff from farms, more damage to soils and watersheds, and more communities suffering from flood damages. We need to act now to repair the damage to our working lands and to reduce the risk of damage from future droughts and floods. We also need to act now to help farmers and ranchers improve their land and our environment while struggling with an economic crisis.

We believe there are two critical needs that need to be met immediately: (1) increased access to sound, scientifically-based technical assistance as well as education and demonstration programs, and (2) increased access to financial assistance for conservation practices. Currently, as many as ten times as many farmers are seeking access to technical and financial assistance as can be served given current funding. Education and demonstration programs have proved effective in changing farmers' long-term land management practices.

Recommendations for Federal Action

The Task Force recommends that the Governor aggressively seek increased funding for existing federal conservation programs. This increased funding should be sought through regular federal appropriations process for FY 2001. Most importantly, however, we recommend the Governor advocate strongly for increased conservation spending as part of another farm relief package we expect will be proposed in 2000.

We specifically recommend the Governor seek the following increases in spending for U.S. agricultural conservation programs.

- *Conservation Technical Assistance*: Increase Conservation Technical Assistance by \$100 million dollars.
- *Environmental Quality Incentives Program*: Fund the Environmental Quality Incentives Program at \$400 million annually.
- *Wetland Reserve Program*: Authorize an additional 500,000 acres for enrollment by 2002.
- *Conservation Reserve Program*: Expand authority to enroll up to 40 million acres.

The Task Force recommends that the Governor seek administrative changes in the Environmental Quality Incentives Program and the continuous sign-up of the Conservation Reserve Program. These administrative changes would dramatically ease burdens of participation and make the programs work better for farmers and the environment. Specifically the Task Force recommends:

- Providing up-front, lump-sum payments for long-term agreements under EQIP and CRP.

- Providing a ten percent bonus for farmers who work together to enroll land in EQIP and CRP on adjacent farms.
- Providing automatic EQIP assistance for supporting practices for any producer creating a conservation buffer through the continuous-CRP.
- Providing automatic EQIP assistance for any producer meeting a set level of environmental benefits as determined by the EQIP offer index.
- Providing bonuses up to 50 percent of soil adjusted rental rates to enroll an additional 2 million acres of conservation buffers through the continuous sign-up of the CRP by 2002.

Recommendations for State Action

The Task Force also recommends that the Governor pursue new state initiatives this year to increase state-funded conservation technical and financial assistance for landowners. These state initiatives, in many cases, could leverage the increased federal assistance recommended in the previous section.

Specifically, we recommend the Governor seek additional funding from the Iowa legislature to:

- Provide state matching funds to secure and implement a Conservation Reserve Enhancement Program in Iowa.
- Encourage and assist farmers to enroll in the continuous sign-up Conservation Reserve Program and to improve the revegetation efforts on acres enrolled in that program.
- Enhance and accelerate the implementation of Iowa's interagency water quality program that includes information, technical assistance, and financial incentives.
- Improve water quality data to support critical functions to improve water quality including development of TMDLs,¹⁴ establishing water quality standards, issuing permits, and protecting floodplains.

Recommendations for Intermediate-term Action

Policy reform in the 2002 Farm Bill. The Task Force believes that conservation can

¹⁴ TMDL is an acronym for "Total Maximum Daily Load". The Clean Water Act requires EPA and/or the states to develop a plan for achieving water quality goals in every water body listed by the state as impaired. This plan is to be based on an assessment of pollution sources and assigning to each of the sources a "total maximum daily load" of pollutants they can discharge into the water body. This provision of the Clean Water Act has not been vigorously implemented and, where it has been implemented, it has affected largely point sources of pollution and not agriculture. Now, however, a series of lawsuits brought against EPA (including one in Iowa) is forcing EPA to implement the letter of the law. This is expected to bring much more pressure to bear on agricultural producers in Iowa and state agencies to develop and implement plans in the 159 watersheds currently listed as impaired in Iowa.

become an income opportunity for farmers and ranchers. Over 50 percent of the U.S. landscape is agricultural land. The care of that landscape is in the hands of less than two percent of our population. In Iowa, about 75 percent of the state is in cropland alone. The farmer's role as land manager—and as a potential producer of environmental goods and services—makes agriculture a unique enterprise. And it is the farmer's role as environmental manager that can become the basic premise of a retooled agricultural policy.

The Task Force recommends that the Governor take leadership within the National Governors Association to develop a comprehensive proposal to create an agricultural policy that is based on farmers' and ranchers' unique roles as caretakers of most of this nation's land and water resources. We recommend that agricultural policy be developed that provides farmers and ranchers the option to enter into long-term land stewardship agreements. These long-term land stewardship agreements could be in place of, or in addition to, participation in other programs designed to manage the risks of farming and ranching.

We recommend the following general principles to guide development of a land stewardship program as a central feature of the 2002 farm bill:

- The program should be available to producers of all agricultural commodities including crops and livestock.
- The program should be available to producers who do not currently participate in farm programs.
- The program should reward "good actors"—in other words producers who have already installed conservation practices should get credit for and financial support for what they have already done.
- Payments under the program should be guaranteed over 10 to 15 years, with options for longer-term agreements if producers want them.
- The program should emphasize land management but should also facilitate changes in land use that support alternative economic uses of agricultural land.
- The program should provide incentives for producers to work together and with their neighbors who are not farmers.
- Payments should be based on the cost and/or risk of implementing the conservation system and the value of the environmental benefits produced.
- The program should include mechanisms for producers to retire debt held by USDA farm loan programs in return for environmental stewardship.
- The option should include mechanisms to meet the requirements of federal, state, and local environmental laws and regulations.

Such a policy option would turn conservation and environmental management into an "alternative crop" for producers. In most cases, conservation crops would not substitute for the

production of commodities, but would create an additional income stream. Farmers and ranchers could improve their bottom lines and make needed investments to secure the long-term commercial viability of their operations with some certainty of long-term public support.

Developing a detailed proposal for such an environmental stewardship option within the farm bill will require a great deal of work. Important questions will need to be answered including:

- Are we willing to pay producers to do what they are or will be required to do under federal, state, or local environmental regulations?
- Are we willing to pay "small" producers to meet environmental regulations while requiring "large" producers to absorb those costs as part of the cost of doing business in Iowa?
- Is there a minimum level of conservation that we should expect producers to meet simply as good neighbors, or are we willing to pay for everything we want in term of environmental quality and conservation?

Answering these questions is beyond the scope of this Task Force's work. We strongly recommend that the Governor begin the process of developing such a proposal—in partnership with other governors, and the agricultural and conservation community—as quickly as possible.

VII. Utility Deregulation/Electric Restructuring

Over the past several years many have espoused the need for rural Iowa to diversify its economy to lesson its dependency on commodity based agricultural markets. One of the biggest challenges to the viability of making such a change is before the Iowa legislature in the current session, i.e., electricity restructuring.

According to the Office of the Consumer Advocate, residential and small business consumers of electricity will pay at least \$114 million per year more for their electricity if the deregulation/restructuring bill sponsored by the utility and large business community is adopted. This bodes ill for Iowa's farmers since they have the misfortune to, by definition, fit in both of those categories.

Those who support the current move toward electrical restructuring are high volume users and the utility companies who want to increase their profits by serving those low-cost customers. However, it is difficult, if not impossible, to establish a scenario under which such a change will benefit small volume, high cost users that make up almost all rural customers.

Iowa has very low cost power in relation to other Midwestern states. If the industry is deregulated, utilities will be able to sell their low-cost power in markets outside Iowa, where they can receive a higher rate. The result could be Iowa consumers needing to shop for a new provider from out-of-state, who will most likely charge higher rates. It is also possible that some Iowans will have trouble finding a supplier, especially rural and low-income customers.

Remember, if you can choose who provides your service they can also choose who to serve and who not to serve. This will be of added concern to rural residents. They are the most costly to serve due to the added transmission cost. It may very well be that companies will decide to not serve rural Iowa—forcing them into a competitive market where no true competition exists. This will mean higher prices, which farmers cannot afford.

Safety and reliability may also be affected by deregulation. Electricity is vital to human life in many circumstances and these areas cannot be jeopardized. With deregulation, utilities will have even more incentive to focus on the "bottom line," and, therefore be motivated to lower costs. Labor makes up one of their largest costs. Consequently jobs may be one of the first things cut, to ensure greater profits. This decrease in employees could result in longer response time to service calls and prolonged outages.

Deregulation could also mean a decrease in the production of renewable energy. Renewable energy is a great boost to Iowa's rural economic development. Farmers involved with the wind farms already running in Iowa are increasing their incomes by leasing their land to these developers. Advances in the use of biomass would also give farmers another cash crop to help in the production of electricity. We must make sure that these investments continue.

Rural economic development is, and will continue to be, a challenging task. Given the existing challenges, the last thing farmers and other rural Iowans need is proportionately higher utility costs as an added challenge to developing a growing rural economy. Therefore, any plan to change Iowa's utility system must expressly and effectively address these concerns.

Recommendations

1. Standard Offer Service (SOS) prices of an investor-owned utility (IOU) for residential and small commercial customers, including family farms, should be based on the IOU's *current* cost of providing service. HF740 would set those SOS prices as the current prices, but those current prices exceed the utility's current cost of service. Initial SOS prices should be set either: (1) by the Utilities Board in a full rate case; or (2) by legislation prescribing reductions of current rates for eligible customers in high rate areas of the state.
2. SOS should remain available to eligible customers at cost-based prices set by the Utilities Board as long as "market" prices for generation service exceed the utility's cost-based price. If eligible customers are compelled to pay prices exceeding their incumbent IOU's cost, those customers realize financial harm, rather than a benefit, from restructuring.
3. *A Renewable Portfolio Standard (RPS)* should be implemented requiring retailers to provide a small but growing percentage of their power from renewables, rising to 10 percent by 2010. The RPS is a market-based, cost-effective way to foster renewable energy in a restructured electricity market because it allows trade among generators or retail sellers of electricity of "renewable energy credits" (tradable proof that one KWH or other unit of electricity has been generated by a renewable energy source). The market determines which type of renewable energy will be developed, where and at what price. Although wind power is among the least expensive sources of new electricity in the state, it is not yet the power source of choice for

utilities. An RPS would ensure that Iowa reaps the economic and environmental benefits of wind power and other renewable sources of electricity.

4. *Net Metering* for all Iowa customers should be implemented. Extending the state's existing net metering rules will let schools, farms, factories and homeowners generate their own power from the wind and save money on electricity by letting their meters "run backwards" when they generate more electricity than they are consuming. Because net metering is intended for self-generation, the generator should be sized to meet the power demands of the customer; limiting payment for excess generation is the proper incentive for right-sizing.
5. A *Public Benefits Fund* should be provided to support energy efficiency and renewable energy programs. Such programs, including low-interest loans for wind systems, research and market development, have traditionally been supported by utilities and state agencies, and need to be continued in a restructured electricity market. For example, one program of value could be cost-shared funding support for small customer-owned wind turbines, which are unlikely to benefit from an RPS.
6. *Disclosure* should be mandated of fuel and emissions data by every energy retailer to all their consumers. Information disclosure is a basic consumer protection. Survey after survey has shown that many people care about the environmental impacts of their purchase decisions. Without basic environmental information, consumers will not be able to make a valid choice.

General Recommendations

1. The pending legislation should also be amended to provide for significant funding of cost effective energy efficiency programs to enable and encourage all Iowans to reduce their use of electricity without reducing their quality of life or their productivity. Finally, the bill should be amended to encourage and support the construction and operation of renewable energy production facilities in Iowa to protect and improve our environment for future generations and to assist and support value added agriculture.
2. Benefits of restructuring the electric industry should be measured primarily in terms of economic and social consequences for the state of Iowa; the results of restructuring should be reasonably predictable and should ensure that all consumers have access to reliable electrical service and fair and reasonable prices; and restructuring should maintain adequate staff levels and training to ensure safety, reliability, customer service and planning standards.
3. The State of Iowa should maintain its oversight of the electric utility industry as the industry restructures.

VIII. World Trade Issues

For some in our Task Force, expansion of agricultural trade is the essential element in returning prosperity to farmers. For others, trade moves production away from a commitment to meeting local food needs and supporting the independence of farmers and rural communities. Moreover, there is real concern about the likely loss of national sovereignty under the WTO to

pursue farm structure or environmental objectives that might be viewed as trade-distorting. Given that most, if not all, countries seek to maintain their own food security, and recognizing that agricultural technology is widely diffused around the world, agriculture is not likely to be a substantial growth industry for the U.S. International agricultural policy based on competitive practices among the world's farmers may eventually lead to national dependencies on food exports and/or imports. Unlike other market goods, food is a human necessity that should not be taken from national—or even local—control. Finally, the U.S. needs a viable farm sector to avoid becoming dependent on food or critical agricultural imports and, likewise, to maintain domestic food security. A viable farm sector means one that can deliver (1) a high and rising standard of living for diverse and widely-dispersed farmers and (2) safe and nutritious foods for consumers.

Several of the stated U.S. objectives pursued at the World Trade Organization (WTO) meetings were relatively non-controversial from the perspective of Iowa as a major exporter of products, both farm and non-farm.

The Task Force suggested that negotiators exhibit appropriate sensitivity to the problems faced by Third World countries in terms of the consequences of tariff reductions and the implications for sovereignty. At a time of depressed agricultural commodity prices, world-wide, resistance to further tariff reductions is expected to be substantial in several countries.

We should protect the right of all countries to adopt policies to (a) protect domestic food security by allowing the establishment of domestic grain reserves and (b) ban imports that do not meet a country's production and processing standards as long as those standards are timely, predictable, transparent, and scientific.

The elimination of export subsidies to gain market share is a worthy target for negotiators.

State trading enterprises should be studied as to their effects on free and fair trade.

We should adopt policies to reverse the concentration of ownership and control of the world's food system.

Two other areas which received a great deal of attention at the WTO meetings involve greater sensitivity in terms of U.S. (and Iowa) interests.

The objective of tightening rules on domestic support for agriculture is particularly sensitive to Iowa and U.S. agricultural producers. In 1998 and 1999, the U.S. is expected to pay out more than \$15 billion and \$22 billion, respectively, to agricultural producers and landowners. The 2000 figure, is expected to total more than \$15 billion. The record low and near-record low prices in recent months have created a situation of vulnerability for U.S. producers. A question is raised as to whether trade policy should be the main driver of U.S. farm policy. Beyond income support, the U.S. position should not curtail our ability to support agriculture to achieve legitimate conservation, environmental, food safety and rural development objectives even if that support could have, as auxiliary or ancillary effects, some impact on agricultural production. Land development subsidies in other countries, for the purpose of expanding agricultural

production, are escaping the attention of those monitoring trade and should receive scrutiny as attention is devoted to domestic support for agriculture.

The objective of facilitating trade in new technology products such as genetically modified crops should be approached with appropriate caution. Food safety is a legitimate concern. There are also legitimate concerns about potential environmental effects and about consumer choice. A question is raised as to whether this is the time or the place to mount an aggressive campaign in support of GMO products in world trade in light of growing support for food labeling and rising concerns about possible long-term consequences of genetically modified products. The more defensible approach may be to support consumer choice and long-term research into food safety and environmental issues with the issue downplayed in trade negotiations.

IX. Genetically Modified Organisms

The announcement in mid-April, 1999, that Archer-Daniels-Midland and A.E. Staley & Co. would not buy genetically modified corn that wasn't cleared for export to the European Union (EU) triggered concerns in the grain trade and by producers. The announcement led immediately to concerns about seed purchase decisions already made and to grain sales at or after harvest. However, the problem has widened in recent months.

Scope of the Problem

Announcements over the past few weeks have confirmed an old adage in open, market-oriented economies. *The Consumer is King*. Whatever the consumer wants the consumer will get. The big concern—no one knows for sure what the King wants. This is a ranking research need that needs to be addressed.

Impact on Producers

A major concern is what all of this means to producers.

The outcome of the GMO controversy is likely to be resolved based on three economic relationships—

- The demand for GMO crops and non-GMO crops, which will be determined by consumers as point-of-purchase decisions are made as a matter of consumer choice.
- The supply of GMO and non-GMO crops which will be determined by producers as decisions are made on seed selection for 2000, 2001 and beyond.
- The costs for maintaining an identity-preserved, two-track marketing system is expected to be significant and will be borne principally by producers. The cost will loom especially large for relatively small quantities of a crop.

Separate handling and storage of GMO varieties will be necessary except where arrangements are made for selling to a buyer who isn't discriminating between GMOs and non-GMOs. It may be increasingly difficult to locate such non-discriminating purchasers if price discounting for GMO varieties becomes widespread.

If producers are asked by the first purchaser to promise that the crop is non-GMO, they should be very careful what they sign or even what oral comments are made.

Winners and Losers

Without a doubt, low rates of consumer acceptance would be translated into substantial economic costs for seed companies.

Technology nearly always benefits consumers. But in this case, many consumers are giving transgenics the cold shoulder. The benefits from this generation of GMOs aren't obvious. And if there's the slightest doubt—in terms of food safety or the environmental impact—consumers and processors tend toward caution. Benefits to consumers from later generation GMO products are possible.

What about producers? This type of technology is mostly output increasing or cost decreasing or both. That means early adopters benefit from a successful introduction but all producers lose in the long run as the technology boosts output with price and profitability dropping disproportionately, in the face of inelastic demand for many products. That's the case even if the effect is cost-decreasing. Cost decreasing technologies have a built-in profit incentive to boost output at the margin. And that ultimately means lower prices and profits.

Finally, what's the likely impact on structure of the agricultural sector? Disappointing acceptance rates by consumers will slow the trend toward vertical integration of the crop sector—and could derail much of the momentum.

Recommendations

The Task Force makes the following recommendations regarding the implementation of the GMO technology—

1. The Task Force urges that adequate funding and encouragement be provided for long-term research by independent institutions and agencies to assess definitively consumer and scientific concerns about food safety and the environment.
2. The Task Force recommends that the Congress review the three-way division of oversight (Food and Drug Administration, Environmental Protection Agency and the U.S. Department of Agriculture) to ascertain whether the present division of responsibility is continuing to serve the public interest.
3. The Task Force urges the U.S. Government to work with all interested countries in moving toward uniform standards and tolerances, worldwide, for genetically modified commodities and products.

4. As noted in Part V, the Task Force is concerned about anti-competitive practices stemming from plant patenting and urges that all interested parties (producers, consumers, researchers and private sector firms depending upon intellectual property rights as a basis for investment in research and development) work toward patent reform which would be in the public interest.
5. The Task Force urges a careful review of trade practices involving "bundling" of inputs (tying inputs over which the vendor does not have monopoly control to those inputs over which the vendor does have monopoly power—such as seed varieties) to assure that monopoly power is not extended to other products. The Task Force notes that tying contracts have been unlawful under federal antitrust law for nearly a century except where the vendor can demonstrate that the monopoly item will not perform as well with other vendor's inputs.

X. Priority Recommendations

The Task Force urges that priority attention be given to the following recommendations:

1. Recommend that policies be adopted encouraging farmer-owned storage of grain including a farmer-owned grain reserve to insulate commodities from the market.
2. Recommend that variable term land idling program be implemented with landowners idling a designated portion of their land in exchange for paid diversion payments or a higher loan rate on remaining production with the understanding that all relevant conservation requirements will be met.
3. Recommend that authorization and funding for the Conservation Reserve Program be increased to 40 million acres minimum and that all land bid into the program be in compliance with all relevant conservation requirements.
4. Recommend that the Secretary of Agriculture be given standby authority to order land idling if commodity prices remain a specified percentage below the five year moving average for a designated period. All land so idled would have to be in compliance with all relevant conservation requirements.
5. Recommend that adequate funding be provided for Farm Service Agency (FSA) direct and guaranteed loans for 2000 and 2001.
6. Recommend that payments be made to producers for adoption of specified soil and water conservation and water quality programs designed to reduce soil loss and improve water quality.
7. Recommend that crop insurance be reformed to minimize incentives to increase production in marginal areas and that the program be confined to coverages where risks are insurable without substantial subsidy.
8. Prohibit packer ownership or control of livestock at the federal level.

9. Transform the Packers and Stockyards Act into a Bureau of Competition in Agriculture and Agribusiness and increase the funding sufficiently to ensure adequate enforcement in agriculture and consider shifting enforcement authority for the Packers and Stockyards Act from the USDA to the Department of Justice.
10. The provisions eliminating production contract confidentiality and waiver provisions in production contracts executed from and after May 24, 1999, and the nullification of those clauses in contracts prior to that date, must be strengthened with anti-retaliatory legislation to further reduce farmers' fears of company retribution for discussing contract terms or filing liens.
11. Recommend that the Iowa Concern Hotline be funded at \$50,000 per year which would allow the Hotline to increase capacity.
12. Recommend that the Farm Financial Planning Program be funded at a maintenance level (approximately \$35,000 per year). This program helps farmers evaluate their farm business and determine whether or not a change is desirable. The computer analysis looks at profitability, liquidity, solvency, and risk-bearing ability. The information is provided for the current operation and for plans involving alternative enterprises. This funding would allow the trained associates to work with approximately 200 farm families.
13. Recommend that three actions be taken to ensure the use of mediation for agricultural disputes:
 - a. Provide state funding at \$100,000 for the Iowa Mediation Service;
 - b. Reauthorize federal state mediation programs (due to expire in June, 2000) and provide funding at \$250,000 for the state;
 - c. Clarify that Iowa law has a jurisdictional requirement for mediation before nuisance or debtor-creditor cases can be filed in court.
14. Develop a comprehensive, long-term land stewardship program for the nation's land and water resources with increased funding for existing conservation programs and an expansion to a minimum of 40 million acres in the Conservation Reserve Program.
15. Recommend that funds be appropriated at the federal level for a select group of plant science centers with an explicit mission of generating germ plasm for the public domain.
16. Recommend that steps be taken immediately to ascertain the best strategies for rural areas to avoid adverse economic consequences from deregulation of utilities.

APPENDIX

Community Mental Health Centers

Additional Comments by Honorable Patty Judge, Secretary of Agriculture

Additional Comments by George Naylor, Iowa Citizens for Community Improvement

Additional Comments by Emily Eide, Iowa Farm Bureau Federation

Community Mental Health Centers

Agency	City	Contact Person
Abbe Center for Community Mental Health	Cedar Rapids	Cindy Kaestner
Black Hawk-Grundy Mental Health Center	Waterloo	Thomas Eachus
Bridge Counseling Center, The	Winterset	Julia Barker
Capstone Center, Inc. Klompensburg	Newton	Norm Van
Carroll Regional Counseling Center	Carroll	Keith Oswald
Cedar Valley Mental Health Center	Waverly	Carla Janssen
Crossroads Mental Health Center	Creston	Richard Price
Delaware County Mental Health Center	Manchester	Joan Tatarka
Des Moines Child & Adolescent Guidance Center	Des Moines	John Tedesco
Eyerly-Ball Community Mental Health Center	Des Moines	Larry Hejtmanek
Gannon Center for Community Mental Health	Dubuque	David Tjarks
Mental Health Center of Mid Iowa	Marshalltown	Michael Bergman
Mental Health Center of North Iowa	Mason City	Ken Zimmerman
Mental Health Center of Tama County	Toledo	John Daniel
Mid-Eastern Iowa Community Mental Health Center	Iowa City	Robert Jackson
North Central Iowa Mental Health Center	Fort Dodge	Jim Burr
Northeast Iowa Mental Health Center	Decorah	J. Des Mcivor
Plains Area Mental Health Center	LeMars	James DeMuth
Poweshiek County Mental Health Center	Grinnell	John Daniel
Prairie Rose Mental Health	Harlan	Steve Goeser
Rathbun Area Mental Health Center	Centerville	Dick Davis
Richmond Center, The	Ames	Mary Bernard
River Center for Community Mental Health	Keokuk	Stephen Miller
Seasons Center for Community Mental Health	Spencer	Gerald Fritsch
Siouxland Mental Health	Sioux City	James Rixner
South Central Mental Health Center	Oskaloosa	William Mick
Southern Iowa Mental Health	Ottumwa	Joyce Bromley
Southwest Iowa Mental Health Center	Atlantic	Emerson Link
Touchtone Behavioral Counseling	Burlington	Peter Badami
Vera French Community Mental Health Center	Davenport	Andrew Lenaghan
Waubonsie Mental Health Center	Clarinda	Mary Anne Gibson
West Central Mental Health Center	Adel	Russell Vaagen
West Iowa Community Mental Health Center	Denison	Ed Rund

Additional Comments by Secretary of Agriculture, Patty Judge

As a result of Senator Tom Harkin's recommendation, the Department of Justice will be creating the position of Assistant Attorney General for Rural Affairs. The person who assumes this position will be housed in the Department of Justice and will answer directly to the Attorney General of the United States. The duties of this job will primarily be investigating vertical integration in the agricultural community as well as concentration in the industry.

While the position will be a welcome addition in the fight for economic justice for farmers, it is also essential that the Packers and Stockyards Administration continue to operate under the jurisdiction of the United States Department of Agriculture. The mission of the Administration is enforcement of the Packers and Stockyards Act of 1921 which specifically gives the Administration authority to investigate and prosecute individual cases dealing with unfair and discriminatory practices by packers, livestock dealers and auction markets. Considering the numbers of both producers and packers in the United States, this is a huge task. A continuation of enforcement of the act leaves the Department of Justice free to focus on larger issues of vertical integration and concentration. Unfortunately, for the past several years, the Packers and Stockyards Administration has not received funding at a level that allows them to aggressively pursue enforcement nationwide.

It is my opinion that the creation of a new agency is unnecessary due to the existing authority within USDA and the new position in the Department of Justice. A better use of tax dollars would be to adequately fund existing programs and agencies.

I wholeheartedly concur with the Task Force recommendation supporting the Plant Science Center at Iowa State University as a means of developing publicly held gene plasm. However, University officials must continue to have the authority to make management decisions that would affect the future of the Center. Restricted use of research information and revenue could be detrimental to the development of the high quality facility we are interested in seeing in our state.

Companies, firms and individuals should each pay their fair share of costs. However, it is probably unconstitutional to assess costs based on business structure or size. Costs are more appropriately covered through a taxing system based on assets (property tax) and profits (income tax).

"As new products and new techniques of production are born so are demands for new inputs and new skills."*

Iowa must remain a leader in plant science and research. It may be shortsighted to focus on believing that we are certainly destined for lower prices per bushel of grain because of today's plant modification technology. Tomorrow's GMO discoveries could radically change the economic picture for agriculture.

* Case and Fair, *Principles of Microeconomics*, page 263.

Additional Comments by Committee Member George Naylor:

The report of the Governor's Agriculture Task Force makes important progress in addressing key issues facing family farmers, rural communities, and the national economy. For instance, a farmer-owned reserve along with short and long term land idling are proposed to bring stability back to a totally out-of-control farm economy, the logical result of the Freedom to Farm Act. Also, the global nature of the modern economy is recognized with the suggestion that the handful of major grain exporting nations share in the responsibility to manage price depressing overproduction. The report also recognizes that we can have an agricultural system that enhances our environment and conserves resources without pollution and that all of our society needs to share in this responsibility, including monetary support. The members of the Task Force put much emphasis on addressing the frightening concentration in farm input sectors and processing, export, and retail sectors.

Nevertheless, I believe our report does not go far enough in one major respect. This time of crisis and our recognition of the problems caused by low prices and factory farms calls for solutions that completely turn our agriculture system around to make family farming the most important goal of our agricultural policy. This will not happen unless we first decide on rational price floors for basic commodities and assure those price floors with the nonrecourse loan program. The report of the Task Force talks about farmer-owned reserves and land set-asides but without mentioning any price goals and preserves the marketing loan mechanisms which does not set floors under market prices. Without price goals, how could we decide the levels of reserves or set-asides? Without the nonrecourse loan, we could have reserves and set-asides, but farmers could still get low prices. More importantly, the factory farms polluting our countryside and taking over the livestock markets that many family farmers depend on will again be benefited by cheap feed at levels below the cost of production.

One of the land idling proposals in our report is based on the "Flexible Fallow" plan which increases marketing loan rates for each farmer who chooses high levels of set-asides. A study of this plan by the Food and Agricultural Policy Research Institute indicates that corn and soybean prices would not reach the conservative estimates of cost of production by Iowa State University. Besides, since Flexible Fallow relies on marketing loans, no price floor is established and farmers can only rely on more government payments as in Freedom to Farm. I believe increased farm income must come from the purchasers of grain and livestock, not the U.S. taxpayer, and prices must approach the averages of the 1970s as proposed in the "Food from Family Farm Act" proposed by Iowa Citizens for Community Improvement and the National Family Farm Coalition.¹⁵

Finally, I am very disturbed by the assumptions in the very first paragraph of the report's introduction. This paragraph implies that society cannot progress and enjoy modern scientific developments without pushing farmers off the land and adopting the kind of agriculture that has developed over the last thirty-five years. This argument is akin to other arguments justifying the need for slavery or giant monopolies at different stages of our economic history. Most of the

¹⁵ For a discussion of the failed "more exports" strategy that low-loan rate farm programs have been based on since the mid-1980s, see *Policy Matters*, the Newsletter of the Agricultural Policy Analysis Center at the University of Tennessee, "Special Compilation, Spring 2000," available at the internet website <http://apacweb.ag.utk.edu/>.

social and economic advances cited in the introduction came about by national commitments and investment by U.S. taxpayers--which should have included family farmers earning decent incomes from their hard work producing food for the nation and taking care of our natural resources. Also, this argument ignores the negative aspects of the way our society has developed, such as urban sprawl, decaying inner cities, and polluted land and water that are a direct result of not valuing family farms and healthy rural society. Rather than find excuses for the terrible state of affairs of agriculture, we need to be clear that denying family farmers fair prices has only enriched and empowered giant agribusiness firms and produced unbalanced economic and social development. We can no longer accept analysis that misses the point or solutions that further the exploitation of family farmers and our environment.

An Alternate View on Price Policy

According to historian Van L. Perkins** it was the recurrent demands of farmers for price relief in 1920's bills such as the various McNary-Haugen bills that set the stage for New Deal intervention in the farm economy and other sectors of the American economy in the Great Depression. Breaking the sod during the World War I boom and the subsequent bust with pressure to produce or move on produced an ecological and social catastrophe in the dust bowl years that made it apparent to most everyone that a completely "free market" was no way to run an agricultural system in a modern society.

Understanding that agricultural production and prices in a free market have no relationship to production and prices in other sectors of the economy was the key to designing a solution. According to Perkins, "In the years 1929-1933 agricultural production declined only 6 percent while agricultural commodity prices fell 63 percent. The production of agricultural implements dropped 80 per cent, prices, 6 percent. . . Between 1929 and 1934 the total volume of industrial production declined 42 percent, while prices of industrial goods dropped only 15 percent." Organizations such as the American Farm Bureau and the National Farmer's Union demanded a solution that hitched farm prices to farm costs.

The fundamental question faced by every farm program, since the first farm program in 1933, is how will farm products be priced to assure reasonable income for farmers. Should "excess capacity," i.e. overproduction, be allowed to impoverish farmers and drive them off the land? Today, should we let cheap grain be delivered to factory farms to produce cheap livestock that compete directly with diversified family farmers who are the stewards of the land?

With abundant resources and public subsidies for production-enhancing research and cheap energy throughout the years, overproduction has been the norm. We believe that excess capacity is a blessing and should not be allowed to drive prices below the cost of production. We recognize that 1) mother nature will be the ultimate determiner of supply, 2) the demand for food is quite inelastic, 3) food shortages are something no one wants, and 4.) farmers individually can do nothing to affect production in the aggregate. Therefore, we believe that a Food from Family Farms farm program administered through our democratically elected government must be enacted as soon as possible to help farmers 1) set a floor under their prices,

** *Crisis in Agriculture, the Agricultural Adjustment Administration and the New Deal*, 1933, University of California Press, 1969.

2) adjust the amount of land in soil depleting crops to conserve soil and avoid further pollution of water with fertilizer and chemicals, and 3) store temporary surpluses to provide society with food security for unusual times of low production or special times such as war. These three objectives, if seriously embraced by our society and government, have been and can be achieved respectively by 1) a nonrecourse loan program for storable commodities, 2) land set-asides or conservation reserves, and 3) a farmer-owned reserve with storage payments at commercial rates and release levels no lower than 125% of the loan rate. The nonrecourse loan not only sets a floor under basic storable commodities, but also indirectly sets a floor under all farm commodities including livestock.

This type of program must be contrasted to Freedom to Farm which 1) sets no floor under prices, 2) allows fencerow-to-fencerow farming with no provision to control supply, 3) forces every bushel produced to be dumped on the market no matter how low prices are already depressed. Cheap grain from Freedom to Farm favors intensive confinement livestock production instead of extensive production on diversified family farms which can use crop rotations and better manure management. Attempts to bolster farm income in Freedom to Farm have meant billions of taxpayer dollars to be spent with no end in sight.

With the Food from Family Farms farm program, increased farm income will come from the purchasers of farm products, freeing billions of taxpayer dollars for food security, conservation measures beyond basic set-asides, or helping young people purchase their farms. Recognizing that other nations have the right to organize their agriculture with the same objectives in mind, trade policies must be harmonized with these objectives.

If we ignore the alarming signals of the current "Freedom to Farm" years, such as severe financial stress, giant manure spills, record nitrate levels in drinking water supplies, the economic and ecological mayhem caused by drought and floods, the closing of small town grocery stores and schools, just to name a few, then we clearly are ignoring the lessons of earlier generations and dooming our posterity to economic, social, and environmental penury. The total costs of all-out production are clearly not included in the \$1.75/bu market price of corn and \$4.50/bu market price of soybeans. The true costs to future generations may be unfathomable.

Additional Comments by Committee Member Emily Eide:

Farm Bureau must respectfully disagree with the decision by the task force to support supply management measures as a way to achieve profitability for producers. Farm Bureau uses a grassroots policy development process to determine what positions the organization will advance in Washington, D.C. and at the Iowa Legislature. At our annual meeting in December and again at the American Farm Bureau annual meeting in January, delegates to those conventions maintained their support for the underlying principles of the 1996 Federal Agriculture Improvement and Reform (FAIR) Act. Recognizing that there were economic circumstances beyond the control of producers, delegates also supported the development of a counter-cyclical income assistance provision to improve the safety net of the 1996 FAIR Act.

Priority Recommendation #1

Reinstating the farmer-owned reserve or land idling programs ignore the realities of the global marketplace. While they may provide a short-term boost to farmers' profitability, in the long-term, such proposals only serve to insulate producers from the marketplace. We agree that excess supply is a concern but believe the more appropriate approach is to increase our share of the export market and to continue to find new domestic uses for the commodities we produce. A farmer-owned reserve simply isolates the excess supply from the marketplace, allowing it to be dumped when prices rise. This will have the effect of putting a downward pressure on prices.

Priority Recommendation #2

A variable land-idling proposal such as the flexible fallow proposal seems attractive on the surface. However, this also brings with it potential downsides to the overall agricultural economy. FAPRI's analysis suggests that U.S. exports will decline if this program is implemented. Our future prosperity hinges greatly on our ability to capture and maintain export markets. The variable land-idling proposal threatens our reliability as a supplier of agricultural commodities to the world market. In addition, FAPRI projects increased feed expenses to the livestock sector, causing their net income to fall. Any gains to the crop sector from this proposal are more than offset by losses in the livestock sector. We should not institute a farm policy that causes negative effects in certain commodities.

Priority Recommendation #4

Restoring the authority to institute mandatory acreage set aside will also have negative consequences for agriculture. We disagree with the committee's assessment that this is simply a tool that all companies use. If, for instance, the CEO of General Motors decides to reduce supply, he does not do so across the board. The CEO of General Motors will first reduce production in those plants that are the most inefficient.

A mandatory acreage reduction program will hit all production areas, not just the most inefficient. Fixed costs will now be spread across fewer acres, increasing the price target necessary for producers to be profitable. The chart below is an example of the impact of a 10 percent set-aside on a 100 acre farm.

	100 Acres	<u>10% Set Aside</u>
Production Expenses		
<i><u>Variable Expenses</u></i>		
Seed	\$3,200	\$2,880
Fertilizer	\$5,043	\$4,539
Chemical	\$3,210	\$2,889
Machinery, fuel, repairs	\$3,824	\$3,633
Drying & storage	\$790	\$711
Utilities	\$641	\$609
Insurance	\$1,029	\$1,029
Hired Labor	\$479	\$479
Interest	\$2,462	\$2,339
Misc crop expense	<u>\$772</u>	<u>\$695</u>
Subtotal	\$21,450	\$19,802
<i><u>Fixed Costs</u></i>		
Land Rent	\$15,000	\$15,000
Building Repair	\$359	\$359
Property Tax	\$799	\$799
Machinery Depreciation	\$2,232	\$2,232
Building Depreciation	<u>\$625</u>	<u>\$625</u>
Subtotal	\$19,015	\$19,015
<u>Total Costs</u>	\$40,465	\$38,817
Production @ 175 bushels/acre	17,500	15,750
Cost per bushel	\$2.31	\$2.46
Effective "Set-Aside Tax" on Production		6.6%
Net Return/100 Acres @ \$2.50/bushel	\$3,285	558
Price Boost Needed to overcome Set Aside	\$2.67	6.9%

We operate in a global marketplace. Set asides are an ineffective tool unless all producers worldwide are required to participate in them. History has proven that other countries increase their production to fill the void when the U.S. idles its productive land.

Priority Recommendation #9

Farm Bureau must also disagree with the task force's recommendation to expand the authority of the Packers and Stockyards Administration and move it to the Department of Justice. We concur with comments submitted by Secretary of Agriculture Patty Judge that this is not in the best interest of producers nor is it the best use of limited federal resources. We believe a more appropriate route is to increase funding for enforcement activities at the Department of Justice and USDA and to make the necessary legislative changes to strengthen protections for independent producers and family farmers.