House Agriculture Committee Hearing
May 13, 2010

This is an UNOFFICIAL TRANSCRIPT of live-stream audio and may not be completely accurate. Despite this potential limitation, this UNOFFICIAL TRANSCRIPT is provided as a complimentary professional courtesy to foster discussion and debate on the 2012 Farm Bill.

Keith Good
FarmPolicy.com, Inc.
Champaign, IL

www.FarmPolicy.com

Chairman Collin Peterson: ...review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order. And we welcome everybody to the hearing today. Before we get started, I want to recognize the newest member of the House Agriculture Committee, Mr. Bill Owens of New York. Bill, we're glad to have you with us. He represents the 23rd District in Upstate New York, and he has already been busy working on agriculture issues, including dairy, which is an important industry in that part of the world. And so we welcome him to the committee, and look forward to working with him on the farm bill and other important issues for agricultural producers.

Rep. Bill Owens: Thank you, Mr. Chairman. I appreciate it, and I've received a lot of welcoming remarks from not only my colleagues on the committee, but many of my constituents, which is a very happy thing to have happen, and I'm going to enjoy working on this committee. Thank you very much.

Chairman Peterson: Well, thank you, and we're glad to have you. Over the past month, we've started laying the groundwork for the next farm bill, and so far I think we've had a positive experience. After our first hearing with Secretary Vilsack, the committee went on the road, holding hearings in Iowa, Idaho, California and Wyoming, and tomorrow we will travel to Georgia, Alabama, Texas, and South Dakota to hear from more farmers, ranchers and others who use farm bill programs.

While some people have expressed concern about the policy of changing farm programs, almost everybody agrees that there are some things that they would like to change in the current farm bill. If we can provide a better safety net within the budget we have, everyone seems willing to at least consider alternatives to the programs that we have in place right now. That is why we're starting early, to give people enough time to look at new ideas, consider different options, see what's working and what isn't, and what might work better.

Today we're hearing from some distinguished academics and economists who study agriculture policy and can provide insight about the trends and emerging issues facing agriculture and rural America. These perspectives will help us craft policies that will meet the evolving situation facing producers and others who use farm bill programs. Just as agricultural production has evolved, I believe that our farm programs must also evolve to insure the safety net provides adequate support for our farmers and ranchers. And considering the reality of today's economy, we need to decide if the existing farm programs are adequate, and we need to be sure that we are making the best possible use of the resources that we have.

When writing a bill as large and comprehensive as the farm bill, it's important that we hear as many perspectives as possible, and that's why I am committed, again, to a process that's open, transparent, and bipartisan. We're collecting feedback on the web site, www.agriculture.house.gov, so I ask everybody to be involved. And again I want to thank the panelists for being with us today, and I look forward to the dialogue. And I recognize Mr. Lucas, the Ranking Member from Oklahoma.

Rep. Frank Lucas: Thank you, Mr. Chairman, and I appreciate your continued dedication to the farm bill process. You and I and many members of this committee set out two weekends ago and traveled across the nation to hear from actual producers about the current farm bill and how they would like to see their future farm bills formed. I appreciate your diligence on hearing from so many parts of the agricultural community.

I welcome the witnesses today and await their perspective on how we can better form farm policy for the 2012 Farm Bill, and look forward to hearing their testimony. I'm especially interested in hearing about the credit situation that our producers are operating under. I worry that the continued excessive spending here in Washington will turn interest rates up, and make the prospect of farming more expensive for producers. I also want to hear the witnesses' perspective on current programs, especially some of the newer programs such as ACRE and SURE.

After hearing from many witnesses in Iowa, Idaho, California, and Wyoming, I have some concerns about the current ACRE program, especially since a large percentage of our producers signed up for the program. And I want to hear if, under the current budget climate, we have the ability to change this program for the good of our producers or if the program just needs to be scrapped. Again, I thank the witnesses for the testimony, and look forward to hearing and observing and listening to what they have to say.

Chairman Peterson: I thank the gentlemen, and other members can make their statements part of the record if they have them. I'd like to have the witnesses come up to the table. Dr. Bruce Babcock from Iowa State University; Professor Neil Hamilton from Drake University in Des Moines, Iowa; Dr. Jean Kinsey from the University of Minnesota; and Dr. Rob Paarlberg from Wellesley College in

Massachusetts. So welcome to the committee. Your full statements will be made part of the record, and we'll recognize Mr. Babcock. Welcome to the committee, and we look forward to what you have to say.

Dr. Bruce Babcock: Thank you, Mr. Chairman, for the opportunity to participate in today's hearing. I want to discuss what can be done in the next farm bill to improve the cost effectiveness of delivering financial support to farmers. Taxpayer costs of farm support for crops over the last two years are about $13 billion for crop insurance, $10 billion for direct payments, and about $2.6 billion for cotton payments. It's not yet determined what ACRE and SURE will cost this year. Of the $13 billion in support for crop insurance, more than $7 billion went to the companies. Farmers received $6 billion in net indemnities.

Crop insurance, I think, fails the cost effectiveness test because it simply makes no sense for taxpayers to spend $13 billion to deliver $6 billion in net payments to farmers. In contrast to crop insurance, direct payments incur minimal delivery costs, but they are increasingly difficult to defend. They provide green box payments not subject to WTO limits, and were originally supposed to transition farmers to lower support levels. But we are no longer in danger of exceeding WTO support limits, any transition period is long past, and farm profitability has been high since 2003.

There has been widespread distaste for government bailouts of big banks, GM, Chrysler, and AIG, but there are arguments that can be made to justify those interventions to forestall a more severe economic downturn. In contrast, farmers receive $5 billion a year for nothing more than owning or renting farmland at [half and step based acres].

Cotton programs must change in the next farm bill if the U.S. is to come into compliance with the WTO ruling that Brazilian cotton farmers were harmed by U.S. cotton payments. Perhaps the cotton producers should follow the example of milk producers, who seem poised to propose replacing their longstanding price support program with a new margin insurance program.

ACRE and SURE were created in response to dissatisfaction with crop insurance, but ACRE has two problems. First, ACRE duplicates coverage that's available from crop insurance. Why should taxpayers be asked to fund both programs? Second, farmers have little faith that state level yield coverage provides adequate farm level protection. SURE is a complicated program to insure that farmers are not overpaid for crop losses. It's ironic to see such effort expended to make sure that a farmer suffers a whole farm loss before a SURE payment is received when direct payments will flow to the same farmer, even in the most profitable years.

ACRE and SURE demonstrate that crop insurance type programs can be administered by FSA, albeit with help from RMA. FSA does not pay agent commissions, and there's no risk burden taken on by private companies, so the delivery cost of FSA can be much lower than RMA. But not all programs can be effectively delivered through FSA. The private sector is more efficient at adjusting on farm losses, calculating premiums, and being consumer friendly. Just as the government is ill suited to run a car insurance program, it's also ill suited to provide individually tailored crop insurance. A recalibration of farm programs is needed that gives FSA easy to administer programs and allows the private sector to provide services that the government should not.

An example of such a new calibration would be to move ACRE to the county level and to eliminate the farm level loss trigger. This program would provide a large degree of protection against farm level income declines, and it would not try to duplicate the kind of services that the private sector is better at providing. To get an idea of what a county ACRE program would cost, I calculated that all planted acres for corn, soybeans, wheat, cotton, rice, barley, and sorghum, at the 95% coverage level, would cost about as much as the direct payment program does. And if you move to a 90% coverage level for these crops, it would cost about $3.8 billion per year. Savings from the crop insurance program could cover this latter figure because many farmers would find that their farm level risk would be adequately covered by a county ACRE program.

Other farmers would find they need supplemental insurance, such as crop hail insurance or supplemental multi peril insurance. Both of these types of customized insurance are exactly the type of insurance that should be provided by the private sector without government involvement. A county ACRE program would also eliminate the need for SURE, because the ACRE deductible would be so much lower than a traditional crop insurance deductible. Farmers who want supplemental insurance could look to crop insurance companies to provide it.

Though such a change in federal farm policy would be a commonsense approach to providing predictable, cost effective financial support when farmers need it, large and/or wealthy farmers may try to block such a move because crop insurance premium subsidies and payments are not subject to payment or AGI limits, whereas FSA administered programs, to date, are.

To summarize, adoption of ACRE and SURE in the 2008 Farm Bill showed that Congress recognizes that the crop insurance program is not cost effective. The next farm bill represents an opportunity to push harder for reform so that the private sector provides the individualized insurance and the public sector backs up major losses directly. Such a move could be accomplished by moving ACRE to the county level and reducing or eliminating federal control or involvement of the private crop insurance companies.

Chairman Peterson: Thank you very much, Dr. Babcock. We appreciate your testimony. Professor Hamilton, welcome to the committee.

Mr. Neil Hamilton: Thank you, Mr. Chairman. Thank you, members of the Committee, and let me begin by acknowledging my friend, colleague and fellow Iowan, Congressman Boswell. It's a special opportunity and an honor for an Iowa farm boy to speak before you. Thirty-five years ago this summer I was a congressional college intern for a young, first term congressman from Iowa, Tom Harkin, and I've spent my professional career working on agricultural law issues.

I want to begin by commending the committee on your work in creating the 2008 Farm Bill, and a number of the innovative programs dealing with issues of new and beginning farmers, organic production, export promotion, rural development and renewable energy, and the working lands approach of the Conservation Stewardship Program. In that regard, my first recommendation is that while you have to turn your attention to the 2012 Farm Bill, there's still a great deal of work that needs to be done in terms of implementing the good things that you enacted in 2008, such as the individual development account pilot program for beginning farmers.

And that brings me to my second topic, which is I think there's no more important challenge facing the future of America's food and agricultural system than helping identify who the next generation of farmers will be. That's why Drake University, Farm Credit, USDA Risk Management and dozens of other partners sponsored a two-day forum here in D.C. last year in March on the whole issue of policy innovations and opportunities to support new farmers. I think the good news is that there's a great deal of interest in that issue. There's some exciting things going on in the states.

I think the even better news is there's a real surge in interest among young people, farm kids and others alike, to become involved in agriculture. But I think our challenge is that we really haven't developed a comprehensive or national commitment to helping the next generation of farmers, and time is of the essence. You know what's happening in terms of the age of the farm population, the concentration of land. The 2008 Farm Bill began a number of important steps, and there are additional things that we can do to help create opportunities in rural America.

In that regard, I'd like to speak for a moment about the whole issue of expanding local and regional marketing. This is a subject I've been involved with for many years. A number of years ago I wrote this book, *The Legal Guide for Direct Farm Marketing* for the USDA. My wife and I have been farmers, market vendors, and today deal directly with restaurants. This is a growing and important part of our agricultural system. Just last week the Iowa Department of Agriculture and Land Stewardship issued a study concerning the $60 million worth of activity that Iowa's farmers markets create alone.

In recent months a number of people have criticized local markets as being detached from the realities of production agriculture, and have said that they're aimed at hobbyists and organic growers whose customers are affluent locavores. I think Congressman Boswell will agree with me that few of the 30,000 plus central Iowans that went to the opening day of the Des Moines farmer's market on May 1st either would recognize or deserve the label "affluent locavores." These were people who were looking for fresh, they were looking for an opportunity to be with their friends, and an opportunity to spend some money with farmers and reconnect after a long winter.

And in that regard, I think the same is true whether you go to a farmer's market at Willmar or Enid or Garden City, that if you only look at the market, you're only looking at one part of the equation. I encourage you to follow the pickups and the vans back to Lakona and Mingo and see the money being counted on the kitchen tables, and think about the markets as a real way of taking urban money back out into rural America, onto farms and small towns where it's reinvested. And that's why I encourage the committee to continue supporting expansion of local and regional markets.

In that regard, there are a number of programs and things that you've done in the farm bill that may be relatively minor programs, and with small budgets, but it's important that you realize how important these are to a large number of people in rural America, programs like the Farmers Market Promotion Program that received over 500 applications for the last grant round, and other programs like the Farmers Market Nutrition coupons.

There's more to say, but my time is running out. I guess I'd end by saying that I encourage you to recognize that all farmers, regardless of their size, and all consumers, regardless of their needs, are constituents of the committee. The words of St. Paul that are etched above the door at USDA says, "The husband that laboreth shall be the first partaker of the fruits." And rural and local markets help make that possible for your constituents, and I encourage you to take a broad and a big tent approach as we think about who it is that is served by the 2012 Farm Bill. Thank you very much.

Chairman Peterson: Thank you, Professor Hamilton. Dr. Kinsey, welcome to the committee. You're recognized.

Dr. Jean Kinsey: Thank you very much. Good morning, Honorable Chairman Peterson and other members of the committee. I thank you for bringing us together to explore the trends in food and agricultural industry as you prepare for the 2012 Farm Bill. In my time in watching and studying the food and agricultural industry, I have seen an evolution in this industry across the entire supply chain. I think it's important to point out at the beginning I view the farming as a part of a continuum down to the plate, and our work includes everything from farm to fork, if you will.

I've also seen a revolution in consumers' attitudes towards the quality and healthfulness of the food being produced, so I will address those trends as I see them, those that are most apparent and that are influenced by public policy set in motion by the farm bill and related legislation. In the interest of time, I'm going to do this in the nature of a few bullet point because I think there are several that need to be considered.

First of all, we've seen consolidation in all aspects of the food industry up and down the supply chain. This has been driven largely by the efficiencies of big box stores, and the dominant decision-making partners in the food supply chain have moved, over the past seven or eight decades, from the farmers to the processors/manufacturers, to the wholesalers, which are now merged with the retailers, and, to a large extent now, retailers representing this revolution in consumers' thinking. There is some reversal in this consolidation due to large fragmentation of consumer groups, but nevertheless, that trend does continue.

Talking about consumer attitudes and health, there is great concern about the quality and healthfulness of the food and diet. There is a merging of knowledge and interest between food and health. Food is being held responsible for chronic illnesses and the lack of wellbeing. We started at the consumer area with organics, which moved into natural, then fresh, then sustainable, and now local, as has been mentioned. It's being held up as responsible for environmental concerns, animal friendly concerns, and minimal processing. And this is an international concern; it's not confined to the United States. It includes concerns about the climate as well. There's a general lack of trust in the food production and in the government's ability to handle the healthfulness of food.

Food has been tied also to the obesity crisis and is being held responsible for that. It's tied to concerns about cancer and heart disease and diabetes. As we all know, allowing these general health conditions to exist is a very expensive proposition. It's a very expensive proposition in terms of the cost of health care for individuals as well as for the government.

The most common question that I get these days from people in all walks of life, including my own private physician, is this: why is the government not subsidizing fruits and vegetables like they do corn and soybeans? I tell you, I hear that at least once a week.

We are at one of the lowest levels of confidence in the safety of the food system that we have ever seen. We have been tracking confidence in the safety of the food system now in our center on a weekly basis, and we are developing an index of this confidence so that we can hopefully track it over time and find out how it changes. We know it changes with the media. After the peanut butter recall more than a year ago now, that confidence dipped to 22%. In other words, 22.5% of the consumers in this country were confident in the safety of the U.S. food system.

Who do they hold responsible for the safety? Number one is government, number two is manufacturers, number three is consumers themselves. You will see this on the charts that were submitted. After the spinach recall, the responsibility of farmers, which was the fourth one down the line, popped up to be the third one on the line, so the beginning of the food chain on the farm is not exempt from this responsibility in the consumer's mind.

Food and agricultural policies certainly can't alleviate all of these problems, but they are related. I'd just like to put two more quick items on our agenda, so to speak. I know you're not responsible for school lunch in this committee, but what happens in food and agriculture affects that, and affects the food that's available, and also the cost. We are still very concerned in this country about food insecure, that is, hungry people. About 6% of people are still hungry. That's also a costly proposition in terms of the amount of health care costs individually, the increased costs of special education, and related items.

Food is being called upon to lead the way and participate in creating a healthier population. In formulating the 2012 Farm Bill, we hope you will consider the role of food and agriculture in the health of the nation's people. Thank you very much.

Chairman Peterson: Thank you very much, Dr. Kinsey. Dr. Paarlberg, welcome to the committee.

Dr. Rob Paarlberg: Thank you, Mr. Chairman, and members of the committee. It's an honor to be a part of this panel and share some of my views on the 2012 Farm Bill. My focus, as an independent academic, is on the politics of food and agriculture. I just published a book called *Food Politics*, and in my written testimony, I examine three challenges that could change the politics of the 2012 Farm Bill debate and make the drafting of a business as usual farm bill more difficult for this committee.

The first two of these challenges, the budget challenge, sorry, current fiscal crisis, and the WTO challenge, particularly the problem of WTO compliance for the cotton program, these two are obvious, and I'll skip over those in my oral testimony. But a third challenge, just mentioned by Dr. Kinsey, is the obesity crisis. I'd like to focus on this. Our nation's worsening obesity crisis is going to make passage of a business as usual farm bill more difficult in 2012 because a growing number of critics have become persuaded that federal policy is one important cause of the crisis.

You've heard the arguments, I'm sure, that federal programs have made junk foods and snack foods artificially cheap relative to healthier choices, that federal programs have made livestock feed, and hence meat, artificially cheap. Federal programs have also made corn-based sweeteners artificially cheap. In my view, these are all baseless charges. The Economic Research Service at USDA has looked carefully at junk food and snack food prices. They have found that the price of fruits and vegetables has fallen just as rapidly as the price of junk foods and snack foods.

Our federal programs do plenty of things that could be criticized, and I'm a critic of many of them, but the one thing you can't say they do is make sweetened foods artificially cheap or make corn or corn-based foods artificially cheap. Our tariff rate quotas on imported sugar make sweetened foods artificially expensive. And certainly our subsidies and tariffs and tax credits and mandates for corn-based ethanol have driven up the price of corn; it's artificially expensive, not artificially cheap. Ask the livestock industry. Nonetheless, over the past several years, a stream of dubious studies and popular books and amateur commentary have persuaded most of the American people that the farm bill causes obesity, and that's a political problem.

Fortunately, I believe there's something this committee can do in the 2012 Farm Bill to counter this impression. Sweetened beverages, particularly caloric sodas, are, on the consumption side, perhaps the single most important contributor to our current obesity crisis, so it may be time to look at the federal nutrition programs as a place to address this concern. The nutrition programs currently take up – most critics don't know they take up about 80% of the farm bill baseline. Maybe this is a more promising place to turn for solutions.

It may be time for these nutrition programs, particularly the SNAP program, to stop subsidizing the consumption of caloric sodas. I would argue that caloric sodas should be made ineligible for purchase under the SNAP program, a little bit like tobacco and alcohol. This would not be an imposition of a tax. It would simply be the removal of a subsidy, and the total dollar value of SNAP benefits wouldn't fall. These benefits would simply be deployed away from an obesity inducing product, which isn't even a food product, after all.

Of course there's going to be resistance to this from those in the beverage industry that sell caloric sodas, but saying no to this segment of the beverage industry would be a good way to show the critics that the next farm bill is being drafted with the obesity crisis in mind. Thank you, and I'll stop there.

Chairman Peterson: Thank you very much. I thank all of the panelists for that excellent testimony. We'll go to questioning. For those of you haven't heard, we're going to limit – we don't want you to ask three questions at the beginning of your time. We'll ask you to ask one question at a time. And when the yellow light goes on, you can't ask another question. We're going to try to keep it more on track here. And with that, I would recognized the gentleman from Pennsylvania, Mr. Holden.

Rep. Tim Holden: Thank you, Mr. Chairman. Dr. Babcock, you have been instrumental in developing the Livestock Gross Margin program for dairy. At a recent dairy policy hearing in my district in Harrisburg, Pennsylvania, producers expressed interest in a margin insurance program, but their participation in LGM was limited. And this program has now been in existence for a few years. What have you learned, and what changes, if any, are you considering making to the program to encourage additional participation?

Dr. Babcock: The changes that we're considering is we're working RMA to not force producers to pay 100% of the unsubsidized premium upfront when they sign the contract, so they may have six months of insurance. We're asking them right now that they have to pay all the premium at the time they sign the policy, so we're going to allow them to stagger it, because dairy farming is a cash flow business, and we think that that would be fairer. We're also working with the Pennsylvania Department of Agriculture to ask RMA to approve a small subsidy for LGM for diary.

Rep. Holden: Thank you. Dr. Paarlberg, in your written testimony you talk about ag research. As you know, the way the research works at USDA, it doesn't necessarily follow what we do in the farm bill. It's the appropriators that choose to do what they want to do with it. What changes do you think should be made in the way that the appropriations are made for ag research?

Dr. Paarlberg: That's a good question. I think the Ag Committee did its job with the 2008 Farm Bill by creating a new research institute inside USDA, and unfortunately the appropriations have not yet given the leadership of that initiative the resources needed to produce results. I took a look at the FY10 appropriations for NIFA for the competitive grants program inside NIFA, and it's only one-ninetieth as large as the competitive grants program inside the National Institutes of Health, so we have the institution in place, but the money is not there.

Rep. Holden: Mr. Chairman, that's the same problem I remember Kika de la Garza talking about in 1993. I yield back, Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from Oklahoma, Mr. Lucas.

Rep. Lucas: Thank you, Mr. Chairman. And we could spend literally a week with this panel alone, but… Dr. Babcock, let's talk for a moment about federal crop insurance. You make some pretty to the point comments about the cost of the present program and the delivery mechanism and a variety of things. I once in a while have constituents out in the countryside who tell me quite simply, "Just give me the money and I'll go buy my own product somewhere."

The fact of the matter is federal crop insurance, as it's sold today, has to be approved by RMA, the products do. If you develop a new product, RMA reimburses you, and all the companies can sell the same product, so it's which agent sells which company's product that's the same product. Discuss for a moment, if you would, the concept of federal crop insurance working more like other insurance products, where there's competition and uniqueness in products.

Dr. Babcock: The possibility. In theory it could, but in practicality it's not clear that purely privatized crop insurance companies can find the capital backing to underwrite the amount of risk that potentially could be taken on by them, and so it's just a risky business to underwrite agricultural losses. So in theory, it could, but in practicality it's not clear that they can find the reinsurance to do it.

Rep. Lucas: Even with the volume of dollars that would be available to farmers to purchase such products if we continued to make those dollars available to producers?

Dr. Babcock: It's not clear that farmers would actually buy the belts and braces types of products that we have out there today if they were given the dollars to choose the insurance products they want. We have seen farmers buy crop hail insurance, and that was a private market that actually worked. But the characteristic of crop hail losses are such that that's poolable and it doesn't represent a very large need for reinsurance.

Rep. Lucas: Dr. Paarlberg, your testimony also was fascinating, and in your written testimony, in your writings discussing the political process that has created past farm bills, if you would with me, look towards 2012. I think we might have potentially 100 new members in the United States House, we might have ten new senators. Handicap what the odds are of passing a farm bill in 2012.

Dr. Paarlberg: I think the odds are – you mean in 2012 as opposed to 2013, or do you mean at all?

Rep. Lucas: 2012, 2013, 2014, at all.

Dr. Paarlberg: If you give us out to 2014, I'll say 100%.

Rep. Lucas: And that will be because we still will pass a farm bill that will be based on the principles of recent farm bills – nutrition, production, conservation, tying the political landscape together?

Dr. Paarlberg: Well, in my written testimony, I give maybe a less elevated explanation for the repeated success of the farm bill coalition. It's based upon a provision of benefits to a diverse set of constituency groups, not just farmers from every part of the country in every product market, but also consumers in the nutrition programs. The environmental community likes some of the conservation programs. The international relief and development assistance community likes the food aid programs. The organic community likes the organic certification programs. The shipping lobby likes the food aid programs. So it's been a successfully logrolled coalition.

Rep. Lucas: Do you find that is a holy or an unholy alliance?

Dr. Paarlberg: I find it as an entirely typical alliance, not unique to the farm program.

Rep. Lucas: I take that as a compliment. Thank you. Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from North Carolina, Mr. McIntyre.

Rep. Mike McIntyre: Thank you, Mr. Chairman. Dr. Babcock, I'd particularly like you and Professor Hamilton to respond to the role that you see agricultural policy playing with regards to rural economic development, and where you see our policy in agriculture in relation to rural development. We know that rural development and the farm bill really is much, much broader than only dealing with the great issues of farming, but also the entirety, such as in North Carolina, where 85% of the state is classified as rural, and the impacts on rural health, telemedicine, broadband, telecommunication, public facilities, first responders' ability to be able to respond adequately and appropriately. Can you tell me how you see agricultural policy continuing to affect rural economic development?

Dr. Babcock: All those policies, those rural development policies that you mentioned, are what economists call public goods. They're a proper role for government, and government is the proper place for those to be provided, and they are provided in the farm bill. They're part of the grand coalition that was just referred to in terms of why the farm bill exists. And I think that if one was to design a better farm bill from a public goods perspective, one would find some extra money for those public goods. And I think that would make a better farm bill. But whether or not it would increase the political viability of the farm bill is for you guys to decide.

Mr. Hamilton: Congressman, I have taught a class for several years on rural development and rural lands, rural livelihoods, and I think part of the challenge is making sure that people in rural communities, particularly bankers, lawyers, the people that can help folks work through those programs are aware of the array of what rural development has to offer. You, on this committee, have made a number of important improvements in rural development – the value added producer grants, which we've made great use of in Iowa, the REAP program, the rural energy program that's helped to put on farm wind turbines on a number of operations around our state. These are valuable programs.

Part of the challenge, I believe, is finding the capacity in rural America, and the entrepreneurial spirit, to take advantage of what you've provided in terms of the loan guarantees and the other programs. Rural development, it seems for a number of years, has been this kind of almost hidden entity, at least within the agricultural law community, and I think we can play a role in helping people know, in fact, what's available there.

Rep. McIntyre: I'd like to ask any of the panel that would like to respond with regard to the importance of biotechnology. We know that in our area of North Carolina that I have the opportunity to represent it's been a cutting edge opportunity to transition for farmers regarding bio fuels and regarding research that can affect some of the concerns we have right now with foreign dependency on other sources for fuel. Can you speak to the importance of biotechnology and where you see that affecting farm policy in particularly the upcoming farm bill? Yes, sir.

[Dr. Paarlberg]: I could comment on that very briefly. It's interesting, if you look at yield gains in different crops across countries, the crops where biotechnology applications have been approved – in the United States, corn and soybeans particularly – show yield gains that are dramatically higher now than for crops where biotechnology applications have not yet been approved, such as wheat. And if you look at the same crop in countries where biotech applications have been approved – the United States – versus those where they have not been approved – France – the biotech approving countries see dramatically higher yield gains than those that reject the technology.

The technology has been around now for close to 15 years. I think it's demonstrated enormous potential to not only boost yields, but to reduce chemical applications, reduce greenhouse gases, reduce land use requirements. I think any forward-looking farm bill is going to want to find plenty of space for new science of all kinds, certainly including modern biotechnology.

Rep. McIntyre: Thank you, sir. Dr. Babcock, do you have a response?

Dr. Babcock: Yes. It kind of is a double-edged sword from commodity polity, though, because the great success of biotechnology in increasing yields, if the food sector had to absorb all that extra production, you would first see very low prices, and second of all, you would see a lot of demands on the commodity policies for coming in and compensating for those lower prices. But we have bio fuels that soaks up, for corn, four to five billion bushels of the surplus, if you will, that is created in part due to the biotechnology led yield gain. And I think if you look out ten years, you're going to see that yield improvement continuing in corn, and to a lesser extent, soybeans, and I think that we're going to have to grapple a little bit with the resulting supply impacts and the price impacts of that, and that should be rolled in with our energy policy.

Rep. McIntyre: Thank you. Yes, ma'am.

Dr. Kinsey: To take just a little different tack on this, I think that it's very important to continue supporting, as was said, science of all sorts, including biotechnology, and not just because it might increase yields of production here in the United States, but to the extent that we are a leader in increasing yields around the world for the rest of the starving people in the world, biotechnology plays a very important part there. And whether we transfer bushels of wheat and corn or whether we transfer the technology to the other countries I think is a very important aspect of this.

Rep. McIntyre: Thank you. Thank you, Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from Kansas, Mr. Moran.

Rep. Jerry Moran: Mr. Chairman, thank you. Before I ask my question, I'd like to recognize the gentleman from Iowa, Mr. Boswell. He was in Kansas last Monday, and on Tuesday morning he was inducted into the General Command and Staff College Hall of Fame at Fort Leavenworth, Kansas, and so I want his colleagues to know that his military service and the recognition for that, as well as his being an instructor at the Command College, he is in great company with outstanding American military leaders, and I was pleased that Forth Leavenworth recognized our colleague Mr. Boswell's contribution to our country. [*Applause*.]

Mr. Chairman, let me ask a question that takes us back to the testimony by Secretary Vilsack when we initiated our hearings on the new farm bill here in Washington, D.C. It caught some of us attention, at least, that the Secretary had virtually nothing to say about commodity programs, and his focus was on rural development, broadband, farmers markets, and I've heard the witnesses here speak, at least to some degree, about those things.

But in my experience in watching the communities of Kansas, and yes, we have challenges in still stabilizing the population, and the demographics continue to trend against us, but it is clear to me that the success of production agriculture is going to determine the future of many communities that are located in my state. And if we're going to have a prospering Main Street, if we're going to have automobile and pickup dealers, if we're going to have feed stores and grain elevators, it's not going to be because someone has a lifestyle as a farmer and has a job in the city, and then comes home to enjoy 100 acres.

The Secretary, in his conversation with the National Association of Farm Broadcasters, then highlighted that that was a goal, that we should be supporting the opportunity for people to return to that 100 acre setting while earning a living someplace else. The reality is, while that's a great thing, and I encourage people to return to their roots and lifestyle of a farmer, and living in rural America is a great thing, would you disagree that if we're going to have economic prosperity in rural America, our farmers are the ones who are going to have to have economic success on an ongoing basis? Am I missing something?

Mr. Hamilton: Well, Congressman, I certainly agree that the farm community is a significant piece of the rural economy, but I'm not sure that a solid and vibrant farm program is necessarily the same thing as a rural development program. You'd have to ask the Secretary what he meant. I know what, as I see it, that agriculture policy is part of it, but also dealing with the opportunities in rural America are part of it as well.

And that's why part of my remarks focused on putting new people back there, because if your part of Kansas is anything like the part of Iowa I grew up in, it's been a history of population decline, farm consolidation, larger operations, and the farm programs are certainly important to those operations, but in terms of the health of those small rural communities, I'd hate to bank on a successful farm program being what's going to support a Prescott or a Cromwell or a Corning, Iowa. I think there has to be more to it. And the census numbers would show that agriculture receives a significant amount of its income from non-farm employment and off farm jobs. It's been that way forever, and is increasing so. So I don't necessarily see them as two separate things. I think they're actually woven together.

Rep. Moran: Well, I don't disagree that they're both important, but I think that there is a growing emphasis upon one over the other. So what you just said, it makes sense to me, but I think we need to make certain that there's not this belief that farm programs or a farm bill that is structurally sound on behalf of production agriculture is something that's no longer important. I look back to the '80s, in which farmers were failing instance after instance after instance, and you can see the exact corresponding relationship in the changing demographics, the reduction in population of communities across Kansas.

And so to suggest that we – I mean, what I worry about is there is now a suggestion that we don't have to worry so much about the financial success of production agriculture because there's something else, lifestyle farming, that's going to take it's place, it's going to repopulate rural America. My point I want to make – and I don't know that this is the panel that is going to acquiesce in my point – but the point I want to make is that you cannot exclude the production agriculture and still expect these other things – broadband is a great thing, but if we do not have successful farmers in rural America, those communities are not going to be there to enjoy broadband.

That core is still there, and you look at Main Streets of communities across Kansas, and it is the feed store, the fertilizer dealer, it's the co-op, it's the bank that lends to farmers, it's the automobile dealership, their customers are production agriculture, and in their absence, we're going to see an even greater exacerbation of the problem we face in the demographics, the population decline of rural America. My time has expired, Mr. Chairman. Thank you.

Chairman Peterson: Thank the gentleman. The gentleman from Iowa, Mr. Boswell.

Rep. Leonard Boswell: Well, thank you, Mr. Chairman. And Mr. Moran, again, we're on the same track. I appreciate what you just said, and I want to make a comment about that, my little editorial, but I'll stick to one question, Mr. Chairman. I appreciate what Mr. Lucas said early on, that we could sit with this panel – thank you for giving us your time and being here – probably all day ant not finish our discussions, but you're probably not going to let us do that. No, okay.

Just on that point that Mr. Moran was making, I look in the audience and I see the National Farm Bureau is here and many others. And every one of us wants to provide food and fibers for this country and make it plentiful and affordable and safe. I have no doubt about that, I don't care who you are. And I believe – Dr. Hamilton, I've seen the land that you're a steward over several times, but I believe that your point is well taken. There is room. There is not a threat to production agriculture. There's room for both. This world population is growing by what, 90 million plus per year? And there's no threat from one to the other. There's room for both, is my belief, and I've been looking at this for a long time.

So I think those markets you're talking about, there's a need for it, people want it, to be provided for. But we can't take away – and I heard that from all the panel I think, Dr. Babcock and others – we've got to keep the research going on yield production and I think the intrinsic values. You folks can tell us about what's happened in, you know, like the different crops, corn or whatever, to get the intrinsic values to do what we wan to do for the alternative fuels and so on. And so we must stay on the research, and I just wish we could move away from worrying about one is a threat to the other, because I think there's demand for both, and I don't see any threat at all.

Let me shift to a question now. I'm very concerned about at the hearings we heard about the ACRE program and too confusing or whatever. And I just wonder, Dr. Babcock, or anybody, what you would suggest that we could do to put this – well, you've talked about it, and maybe you've already answered it. We'll carefully look at your testimony. But in your opinion, change to the county level. I totally agree. I think that's right. I think you'll find that probably a lot of us do. You increase the coverage to 100% of planned acreage as opposed to 83.3. In your opinion, what is the most important changes we need to make? We probably can't do everything, or we may not, or who knows, but what would be the most important?

Dr. Babcock: In terms of the ACRE program, I think a lot of the confusion about it came about because there's this farm level loss trigger on it, so you had to have a farm level yield history, and so then you had to go and get your FSA records or your RMA records, and you had to bring them together, and it was pretty complicated how all that got implemented, so that's one thing. And another thing was it's at the state level, and then people were going, well, what's a state yield? I mean, how is that going to affect me? Because they don't identify so much with a state yield.

So I think two moves that could be made would be to move it to the county level so that it would be more local, so the yield variation in ACRE would reflect, to a large extent, the yield variations on farms. And I'd just get rid of the loss trigger, because then FSA could easily implement it, and farmers could easily understand the coverage they were getting. So that would be the move that I would make.

Rep. Boswell: Thank you very much. What program do you think, Dr. Hamilton, would be the most beneficial to the farmer markets? You've talked quite a bit and I know you've put a lot of effort into it. What would be the most beneficial?

Mr. Hamilton: Certainly a program that has shown a significant amount of demand is the money that you put into farmers market promotion programs. These are grants made by AMS to markets to help them deal with expanding their markets. To have a $5 million grant round that receives over 500 applications, and after they went through the review panels, I believe that they believe they could have funded probably $20 million worth of those grants.

And these are grants out to local communities, to the market structures themselves. Certainly the programs that you've put a fair amount of money into, the seniors and WIC, farmers market nutrition coupon programs that actually provide benefits to shoppers that are redeemed with farmers are important. But helping build the capacity of the markets, because the capacity is also going to help pull the demand and create the opportunities for the farm operations as well, I believe.

Rep. Boswell: Well, thank you. In closing, Mr. Chairman, I'd just say this. I don't want the sustainable people to get worried about that I am very enthusiastic personally, and I think we are. We have to promote and encourage the yield and the values of production agriculture, and I'm very committed to that. But I don't see a threat from what's going on in the sustainable side of it because there's room for both. I yield back.

Chairman Peterson: I agree with the gentleman and I recognize the former chairman, the gentleman from Virginia, Mr. Goodlatte.

Rep. Bob Goodlatte: Well, thank you, Mr. Chairman, and thank you for holding this hearing. I've been interested in hearing the discussion about where our priorities should be in the next farm bill in terms of spending. I happen to agree with Mr. Moran and Mr. Boswell that the core of successful economies in rural America is going to be centered around agricultural production and processing, and those things related to providing a safe and affordable and abundant food supply for this country. And it worries me that the trend, however gradual it may be, is to depend upon production of agriculture elsewhere in the world.

But I want to talk a little bit about the bigger picture that we face here in the Congress. We are facing this coming year another trillion dollar plus deficit. The President's budget, which apparently will not be acted upon by the Congress, it's not going to eve produce a budget this year, projects $3.8 trillion in spending against $2.2 trillion in revenues. And obviously part of that is related to the downturn in the economy that we have recently suffered, but even assuming economic growth, which is taking place now, to a certain extent, and assuming that that will continue on for the next decade, at the end of that decade, the President's budget forecasts a deficit for the year 2020 of $1.2 trillion. So the net result of all of this is that the average over that decade is going to be adding a trillion dollars to our debt each year.

And we're going to face some really tough decisions in this Congress. The sooner we get about facing them, the better off we and our nation's economy is going to be, and the more likely we'll be able to avoid the fate that's now facing an increasing number of European countries which have obviously very well developed safety net systems in their country to help people in various sets of circumstances. But the end result is going to be the same if we don't curtail the growth in spending relative to the growth in our economy that generates those revenues.

And the result of that, in my opinion, is going to be that this next farm bill is going to be under extreme duress. We have no guarantee that we'll be given the baseline that we have operated under in the past. And I'd just like to go through and ask each one of you where you see the maximum savings that can be attained and the best bang for the buck that we can get in rural America and for the farmers who are the base economy of that rural economy. We'll start with you, Dr. Babcock.

Dr. Babcock: I'd take direct payments and do a county ACRE program, and then let the crop insurance program shrink to a more appropriate size. I think that would save about four to five billion dollars a year, so in my own small little way, over five years, that's 20 to 25 billion dollars.

Rep. Goodlatte: Professor Hamilton?

Mr. Hamilton: Well, it may not answer the question directly in the sense of the cost to the government, but I think that the issue of looking at nutrition as the responsibility of the agriculture committee and the agricultural sector, that in fact we need to recognize that dealing with the nutrition and food needs of society is really a health challenge, and looking for other places to, in fact, help fund and support the nutrition programs, it may not reduce the cost to the government, but it in part reduces the cost to this committee. And on that issue, I think that as we think about food and its connection to health care reform, we can deal with some of the costs that the government experiences in terms of health care by, in fact, improving the nutrition and diet of our population, and look for the savings there.

Rep. Goodlatte: Can we improve the nutrition and diet without spending more money? Can we spend less money in that area and achieve better nutritional habits on the part of our children and adults?

Mr. Hamilton: Well, Dr. Paarlberg may well speak to this, but he mentioned earlier the question of the foods that you make accessible under the SNAP program would be one of those potential reforms.

Rep. Goodlatte: Thank you. Dr. Kinsey?

Dr. Kinsey: Actually, I would just tag along on the tail end of what he just said. I think that you talk about the total federal budget, a big part of that is Medicare, and a big part of what Medicare pays for is ill health due to obesity and due to unsafe food. And to the extent that those two issues can be addressed through the kinds of foods available, through the relative costs of food, through the increased availability of fruits and vegetables and this sort of thing, I think that the reduction in costs on the health care side could largely off—maybe not largely—but substantially offset some of these costs that the total budget is worried about. There's about $40 billion estimated, on the low side, for food borne illnesses, and roughly the same amount for the health care costs due to obesity.

Rep. Goodlatte: Thank you. Dr. Paarlberg?

Dr. Paarlberg: For saving money, if you look at the farm bill baseline, as I say, it's 80% the nutrition program, so you're forced to take a look at that. You know, it's interesting, these nutrition programs were begun when there was a serious hunger problem in America, particularly in rural, poor communities. But that was many years ago. If you look at the data that come out of ERS carefully, you'll see that on – about hunger today – on an average day, only 1% of American families now face serious food insecurity.

We have fortunately, because of income growth and because of reduced food prices, moved away from the acute hunger crisis that faced this country 40 or 50 years ago. As I say, we now have an acute obesity crisis. And you can try to address that crisis by spending more federal money to push healthier choices through nutrition programs. We've tried that. Or you can combine that approach with a removal of some of the subsidies in current nutrition programs for unhealthy choices. That would be my first preference.

Rep. Goodlatte: Those are interesting suggestions, and if you care to expand on those, I'm sure the committee would welcome those ideas. I do believe we are going to have to achieve some substantial savings in this farm bill. Thank you, Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from California, Mr. Baca.

Rep. Joe Baca: Thank you very much, Mr. Chairman, and Ranking Member for having this meeting, and appreciate the panel and its being here. I want to piggyback on a statement that Mr. Paarlberg indicated that there's not serious hunger in America. There is serious hunger in America. Thirty-eight million people are going hungry right now. There's high unemployment right now. I also believe that obesity is part of the problem that adds a lot to it, so we've still got a lot of work in trying to make sure that we feed many of the people that are going hungry in the United States, especially those that are unemployed right now. And it seems like it's going to continue in that trend for a while, until the unemployment changes, in the ability to have people put food on the table.

Meanwhile, though, I want to ask Dr. Kinsey a question. As you note in your testimony, the primary law indicating the National School Lunch Program is the Child Nutrition Reauthorization Act. But I believe that the farm bill will continue to be a positive vehicle for us to work on to improve health and the quality of meals. How can we expand the policies enacted in 2008 to get more fruits and vegetables and whole grains into our schools and affordable to them?

Dr. Kinsey: Well, I suppose one of the ways to do that is to shift some of the farm subsidy dollars away from the major crops towards fruits and vegetables. As I said earlier, and as I wrote, in terms of public opinion, that's the most common statement that I hear, or the most common question: why can't we subsidize fruits and vegetables to make them less expensive not only to school lunch, but to the general public. We have a relatively safe and affordable food supply, but it's a matter of the relative prices. The prices of fat and sugar are much, much cheaper than the prices of fresh fruits and vegetables. And so somehow anything that can be done to change those relative prices I think will help.

Rep. Baca: Well, definitely, because that's how we can begin to address the obesity problem that is there: reorientation, reeducation and educational literacy that needs to be disseminated to a lot of us because we have a lot of the desert food banks that are out there, so we know very well that parents and kids go out and the quickest meal is through fast foods. And we've got to change that kind of concept, but we've got to make sure that whatever we provide through the lunch programs, it's got to be affordable to us as well, as we look at the budget now and we look at the budget in the future to make sure that we have these fresh fruits and vegetables and whole grains.

Let me ask you this. In your opinion, are there any unintended consequences of the 2008 Farm Bill that may be contributing to the current obesity crisis in America? If so, what are they, and how do you think Congress can best avoid them when crafting the next farm bill?

Dr. Kinsey: Well, I think some of the unintended consequences have been mentioned also by Dr. Paarlberg, but one of the end results, as we've said before, is that the combinations of fats, sugars – and we could throw in salt, although that's not part of the purview – have made those kinds of foods super palatable, but they've also made them super cheap. And somehow we've got to change that relative mix. Now, for school lunch, I think there's no doubt that the recommendations by the Institute of Medicine, along with the 2008 Farm Bill, to incorporate more fresh fruits and vegetables is going to cost a little bit more, unless we can figure out a way to lower the cost of those.

There are some other – and I can't give you specifics on this – but there are some other recommendations, or maybe even regulations in school lunch that dictates the number of calories that must be served to children of certain ages. And I've heard school lunch people that are planning meals say, "I couldn't serve a fresh pear for dessert because it didn't give enough calories in this meal by regulation." So I think that some of those things can be looked at as well.

Rep. Baca: Okay. And part of the problem, you mention super cheap, and I'm very much concerned that our American farmers have the ability to provide a lot of these fresh fruits and vegetables and whole grains when we're importing a lot from outside the country, and some of them may not be as safe as some of those that can be imported through us. But then we've got to look at how can we make that affordable as well, because a lot of parents are concerned with a lot of the pesticides and others that come in from other countries that we don't inspect every one of those fresh fruits and vegetables that come in.

Dr. Kinsey: Well, we don't inspect those. We don't inspect our domestic ones either that carefully, so I think that's really not the biggest issue. But to provide fresh fruits and vegetables around this country, we're going to have to have some of those imported, there's no question about that. And I think that, again, is part of the equation. There's just no one silver bullet here. You have to look at all of the pieces that can help provide a more balanced and more nutritious diet at the school lunch table.

Rep. Baca: Thank you. I know that my time has passed.

Chairman Peterson: I thank the gentleman. The gentleman from Nebraska, Mr. Fortenberry.

Rep. Jeff Fortenberry: Good morning, and thank you, Mr. Chairman, and thank you all for coming today. I think it's important to start at the top of the mountain here and think in a little bit broader terms about how much general farm support costs the government – less than one percent of the overall federal budget – and how much that provides in terms of the impact on the overall economy. Now, this Congress, a year and a half ago, throws $700 billion at the credit laundering operations on Wall Street in order to stabilize them, and year in and year out we have this set of farm programs that comes under a great deal of scrutiny, rightfully so; the farm bill isn't perfect.

But nonetheless, during this economic downturn throughout the rest of the economy, this portion of the economy has remained relatively stable. Some pockets of difficulty here and there, but overall, agricultural production and the wellbeing of the farm sector has provided one of the stabilizing influences in this overall economy for a relatively small investment of the public dollar. So I think it's important for all of us to keep that in mind as we look at, appropriately look at potential adjustments to the overall farm programs.

In that regard, though – and I apologize, I missed your earlier testimony – but what works well, what doesn't work well, keeping in mind that earlier statement that I said, that the main purpose of this is, again, the stabilizing influence of this important sector of our overall economy? Then I'll turn to some of you who talked about nutrition programs as well.

[Dr. Babcock]: Well, I'll say one thing that has worked fabulously well is our energy policy in terms of the Energy Independence Security Act, in terms of raising the demand for farm commodities. That has put a good floor under the price of corn, soybeans, and wheat, because soybeans and wheat compete with corn, so I think that is, from the farm sector, from the crop sector, that's been really good. Not so much from the livestock sector, because their feed costs have gone up, of course. But overall, in agriculture, I think that has worked.

Rep. Fortenberry: This is a good point, and my second question was going to be about emerging opportunities, and that's clearly one.

Mr. Hamilton: Congressman, I'd add that I think it's important, as you think about the people focused on the cost of the farm programs, to also think about the benefits that society receives. And one that hasn't been mentioned this morning, but I think is important to remember, is how the farm programs play a significant role as an environmental program, and a soil conservation program. The 85 conservation title was one of the most significant things that we've done in farm policy probably in the last century, and whether it's Sodbuster or Swat Buster or cross compliance, those are important programs that are helping conserve soil and protect water quality.

Many of you remember the situation before we had the CRP. CRP has functioned, in part, as a production control or management program that's reduced some of the costs of other supply management programs. And I guess part of my concern, or at least issue would be as you look at the difficult question of how you move forward in structuring whatever the system of farm programs are, and farm support, the whole question about how we at least historically have used those as a carrying agent, as the basis upon which we've rested our soil conservation policy and everything that's associated with that. That's important that we don't lose that, or that we, in fact, identify how that's going to be able to be continued.

Rep. Fortenberry: This is an interesting comment, to wed the concepts, the paradigm of environmental stewardship with the program itself. One of the other factors I failed to mention as well is the substantially lower food costs that we actually do enjoy in this country compared to other developed nations. Would you like to respond as well, Dr. Kinsey?

Dr. Kinsey: Well, I think obviously what has worked well is the large production of affordable and relatively safe food products. What hasn't worked so well is somehow being able to gain or regain the confidence of the public in the safety of the food system. They hold the government largely responsible for that, whether that's the right party or not. And when the public loses confidence in the food system, or in the safety of the food system, it leads to a lot of what we might call some of the more fringe activities around the food system, and I think that fragments everybody's opportunities.

Rep. Fortenberry: Thank you. Dr. Paarlberg?

Dr. Paarlberg: I'd say what's worked particularly well in the past are programs that have supported agricultural research, rural infrastructure, and rural education. Historically, those have been the strongest contributors to the high productivity growth that has made food abundant and affordable for Americans and for foreign customers of U.S. agricultural exports. Those are the strong programs. I'd also include historically some of the well targeted nutrition programs. I'm not opposed to nutrition programs. They addressed serious problems with hunger in categories of our population several decades ago, back when we were spending a fraction of what we're spending today.

What doesn't work so well today are first, as I say, excessively expensive nutrition programs that are trying to solve a hunger problem when I think we have an obesity problem. And second, commodity programs that I agree aren't a large part of our nation's fiscal crisis at the moment, but they do present fairness and targeting issues. If you look at the distribution of farm program benefits, something like 10% of farmers are getting 60% of the benefits. There's an inequitable distribution of benefits. Some very large growers with high net worth are receiving considerable subsidies from the federal government.

Also, at a time when crop prices are high and the livestock industry is in trouble, should we still be providing such generous subsidies to feed producers, and leaving what I think is an imbalance in outcomes across the sector as a whole.

Rep. Fortenberry: Great. Thank you very much.

Chairman Peterson: Thank the gentleman. And I have to jump in here because I can't take this anymore. You know, you need a – I think we need to point out that those 10% of the farmers that are getting 60% of the subsidies are actually producing 80% of the food. So, I mean, the way I view this, the so-called subsidies, which is really a safety net, follows production, and that's what it should do. So, I mean, in my opinion, it's working the way it should.

But the question I have is, you know, how can we have these people come into my office talking to me about hunger and about food insecurity, and then the same people basically coming in and talking about obesity? I don't get this. How can you have a hunger problem and an obesity problem? You know what I mean? I think you rightly, Dr. Kinsey, have pointed out that we're losing the PR war, if you will, with city people. But these are the folks that are, you know, they've got some problems within their own thinking. How do you square this? Have you checked into this? Have you examined how these people can have this conflicting view, and does it make any sense?

Dr. Kinsey: Well, let me – back to the question about how can you have hunger and obesity existing side by side, the fact is that you do, and it's around the world this exists.

Chairman Peterson: Well, I'm not talking about around the world. I'm talking about the U.S.

Dr. Kinsey: I know. And we can talk about Minnesota, where we have been doing some work with the hungry population, if you will, and charities that serve that area. Part of the reason that you get obesity and hunger coexisting in the same household, sometimes even in the same person, is the – I don't have time to get into the metabolic area here – but when people are hungry, they eat whatever is available, and whatever is available tends to be cheap, it tends to be fat, and it tends to be calorie dense and nutrition poor.

And so you perpetuate not only a hunger situation, but you can do it with obesity simultaneously. And we have no evidence that in the hungry population there's a greater proportion that are obese than are in the general population, but that's a whole lot of people; that's about 60%. So it does exist together, and it just has to do with the kind of calorie dense food that tends to be available. We find that obesity is greater at low income, low and middle income households than it is in higher income households. Part of this is education and information and opportunity and exercise and all of that.

Chairman Peterson: How much of it is marketing?

Dr. Kinsey: And a lot of it is marketing.

Chairman Peterson: And the people marketing to those folks?

Dr. Kinsey: They're marketing to those folks and they have the income and the wherewithal to purchase more expensive food, basically.

Chairman Peterson: Dr. Paarlberg, what do you think?

Dr. Paarlberg: I think we have a serious poverty problem. We have long-term problems with low income communities in serious poverty. These problems do not, any longer, express themselves the way the used to in actual hunger. If you look at the diet of the poor and compare it to the diet of the middle class, in the past the poor were undernourished compared to the middle class. Today, if you compare the diet of the poor to the diet of the middle class, the intake of protein is comparable, the intake of other nutrients is comparable, and the intake of calories is comparably excessive.

So I like the nutrition programs to the extent that they address income insecurity, and they do that. They provide an income supplement to the poor and they provide income insurance to the poor. I like that part of it. But I don't like imagining that they will be solving a hunger problem, and I don't like the way we try to redefine poverty, which is a serious problem, as hunger, when among the poor now a greater problem is obesity.

Chairman Peterson: Well, in other words, what you're saying is that we shouldn't put more money into these nutrition programs unless we take some of these problems out of the system first, because otherwise we'll just be making it worse.

Dr. Paarlberg: I think you can spend exactly the same amount of money. You don't—

Chairman Peterson: And get better—

Dr. Paarlberg: --SNAP benefits if you disqualify from eligibility some non-food products that are contributing to the obesity.

Chairman Peterson: Right, and I agree with you on that, but there will be pressure to increase spending in nutrition, and I guess what I'm saying is I'd be reluctant to do that if we don't fix some of these underlying problems. Would you agree with that?

Dr. Paarlberg: I would agree with that.

Chairman Peterson: Thank you. The gentleman from Pennsylvania, Mr. Thompson.

Rep. Glenn Thompson: Thank you, Mr. Chairman. Well, I wasn't going to talk about obesity. I try to avoid that because when I go for my physical, my doctor always writes "morbidly obese" in my record. And I just want to throw this out. We talk a lot about obesity, and we're hanging a lot of it on intake, and obviously I think there's more components to it. And it sounds like the panel, at least some of the panel, has really looked at this very closely in terms of the obesity issue.

How much is lifestyle activity and level of activity? I mean, growing up in the country, I know when I was young, we were not indoors. Our activity level wasn't limited to our thumbs. Any opinions in terms of just kind of looking at a broader view in terms of – we do have an obesity problem in this country. My background is health care. But I'd just like your opinion in terms of you got nutrition, but you also have activity, lifestyle choices.

Dr. Kinsey: Well, I think you're absolutely right, and anybody that's looked at this would agree with you. I mean, it is a combination of the balance of calories in, calories out in any given body, and yes, there's been a great lifestyle change. That's part of the problem. Nobody would deny that. But you have to operate on both sides of the equation.

Rep. Thompson: Absolutely, yeah. Okay, thank you. I just wanted to kind of put that out there. Dr. Paarlberg, I've heard some of the – in my congressional district, we have a large forest area, 513,000 acres, Allegheny National Forest, and some of the forestry organizations have concerns that the BCAP program, the Biomass Crop Assistance Program, is having some unintended effects. And I don't know if you're aware of any of those or have any comments on that.

Dr. Paarlberg: No, I'm not a specialist on that. I shouldn't be guessing.

Rep. Thompson: Okay. I don't know if any of the panelists – you know, what I'm hearing from the industry is how it's driving up this program, driving up the costs, actually, in some areas, making it challenging for folks who utilize wood chips for making wallboard. They're having difficulty getting that because it's all with the government subsidy. You only get the subsidy if it goes into energy production, so it's driving up the cost of building materials. It probably has other impacts as well, but I didn't know if anybody had any experience or opinions on that.

Mr. Hamilton: Last week I participated on a White House Clean Energy Forum, and that was one of the subjects that was discussed by several of the biomass people. The concern appears to be that the use of forest products that would otherwise have real uses, like particleboard or low grade lumber and products that we didn't think about as being biomass, like you'd have with the slash from timber stand improvement that you would put into ethanol production, but instead we're diverting kind of formerly useful products, and that's a difficult issue to address. But it would seem that with the right type of program guidelines, it might be something that it was an unintended consequence, I think. It certainly wasn't the goal when you wrote the BCAP program.

Rep. Thompson: Okay. Well, Professor Hamilton, while I have you, I'll start with you and then see if any other panelists have opinions. The estate tax is something I hear a lot about from our farmers in my district, and they're very concerned about it. What, in your view, will be the effect on our nation's farms if nothing is done to fix the estate tax?

Mr. Hamilton: Well, I'll begin by saying this is dangerous territory, since I don't specialize in estate tax planning, and many of you know Neil Harl, who's kind of Big Neil in Iowa, and I'm just Little Neil, and Neil is a specialist in this area. And I know I've heard him say that he has difficulty finding a farm that has actually had to be sold because of the impact of the estate tax. I know that is debated by others. But the existing exemptions are – I don't know whether you'd describe them as generous, or at least significant. And with appropriate tax and business planning, most farms, in fact, I believe, could avoid the negative impact of an estate tax.

Now, it may take some special planning in terms of how you go about doing it, but I think in the discussion about the impact of the estate tax, we have to keep in mind what were, I think, a multiple number of goals of the estate tax, and one of them was the issue of not necessarily breaking up large land holdings, or consolidated land holdings, but that was certainly a question as to where we put the discipline on where the exemptions were. It has an impact on the availability and accessibility of land in the rural marketplace. It ties back to the new farmer issue that I touched on.

Rep. Thompson: Thank you, Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from Georgia, Mr. Scott.

Rep. David Scott: Thank you, Mr. Chairman. Before I get into my questions, I wanted to say welcome to all of our panelists. And as I look down the list of those testifying before us today, I can certainly say that you all are very distinguished, very knowledgeable, very well respected in your fields, and your thoughts on these matters will be certainly helpful.

But I also notice that our witnesses before us are all representatives from the larger 1860s land grant universities. There seems to be no one here testifying before us today representing 1890s land grant, predominantly African American universities or the farmers that they work with. Our committee here has historically shown bias, intentional or unintentional, in favoring 1860s universities. This bias shows up, unfortunately, in the voices we hear from often, the programs we authorize, and most importantly, the funding we provide.

The 1890s universities has just as much to offer as the 1860s in terms of expertise. As a matter of fact, their entire foundation was founded on agriculture.

Agriculture is a part of their names. And it is my hope that the committee will keep that in mind the next time we have panels of academics testifying before us. Fortunately, we'll have that opportunity to hear from a representative of an 1890s university tomorrow in Atlanta, but it's a shame that we have to fly 500 miles to do so.

Policy is made here in Washington. Spending is dedicated and made here in Washington. And we should make a concerted effort to have all voices represented before us here in Washington where the decisions are made, the policy is made, and the money is determined. And so I just wanted to make that statement.

Now, on the issue of obesity, I am firmly convinced that one of the serious reasons why we have obesity now within our children, especially, is that we have disavowed physical education in our school systems. If you look back during the times when we had physical education, a structured hour in the curriculum when our kids would go and exercise – we called it gym – now there is none. But there's a preponderance of fatty material that they're eating. There's a preponderance of sitting time before computers. And so I urge the committee and all of us to make a concerted effort to restore physical education in our school system, if we're serious about bringing down the obesity.

I'm a firm believe that the farm bill is a necessary compilation of policies that allow our U.S. farmers to produce large amounts of safe, quality food for consumption here in the United States, but also abroad. However, we hear frequently that the United States system of agriculture and the government policies we have created to support it have become a hindrance to the creation of a robust agricultural sector in the developing world, thereby perpetuating or exaggerating the world hunger problems. And I'd like for each of you to comment on how, if at all, our domestic agricultural policies affect the developing world.

Dr. Babcock: Well, in the past I think there's a grain of truth to what was said in terms of to the extent that we tied the production of our crops to the subsidy levels that we provided farmers, that tended to depress world prices, and it tended to hurt agriculture around the world. I think today we have the opposite situation. By and large the programs that we have in place have tended to prop up world prices, and that has tended to help world agriculture, and so I don't think we're guilty at all of that anymore, and particularly with the kind of programs that we've adopted.

Mr. Hamilton: Well, Congressman, I believe – and I want to say that I agree with your comments about the need to hear from the 1890s. But I just want the record to show that Drake University is a private university. We're not part of the land grant system, though I had an opportunity to be educated there at Iowa State where Dr. Babcock is.

Yeah, I think one of the important changes that the Administration is trying to make is changing the mix of how we approach foreign aid and agriculture, and looking at more transfer of technology and knowledge and an approach towards trying to improve the capacity of foreign agricultural systems, in Africa, in particular, where they've had that focus. And so if there are problems or have been problems with the impact of our programs on the opportunities for producers in those countries, we're at least beginning to also broaden our thinking as to how we can best assist them.

Rep. Scott: Okay. Thank you.

Dr. Kinsey: Yeah, I think that it's well known now that sort of the problems with import substitution in other countries by, as I mentioned before, importing the corn instead of importing the corn technology has worked against the development of agriculture in many developing countries. I think we've turned the corner on that. I think we're doing a lot better in developing indigenous – not only indigenous crops, but indigenous technology. But to the extent that we overproduce and then flood the market with a lot of product, it can hurt the development of agriculture in developing countries.

Dr. Paarlberg: I think it's undeniable that some of our commodity programs have lowered international prices at times to the disadvantage of small farmers in poor countries, including, for example, cotton farmers in Africa. And at least according to the dispute settlement body the World Trade Organization, our cotton program hasn't yet corrected all of its tendencies to produce that result, so I think we do have some changes on the agenda there.

However, I don't think that poor farmers in developing countries are going to magically become prosperous if U.S. agricultural commodity programs are reformed. If the U.S. cotton program is changed, that's probably going to help the world's most productive cotton farmers in places like China or Brazil or Australia even more than it will help impoverished cotton farmers in Africa. But that's not an argument against changing the program.

Right now the program is obliging our government to spend $147 million a year to subsidize the cotton industry in Brazil in order to deter Brazil from retaliating against us following the dispute settlement body judgment against our policy. So it's complicated, and there's an element of truth to the injury argument, but I think it's only a small part of the story.

Rep. Scott: Thank you, sir.

Chairman Peterson: I thank the gentlemen. The gentleman from Texas, Mr. Neugebauer.

Rep. Neugebauer: Thank you, Mr. Chairman. I'm sorry I had to step out there. I want to go back to a little bit of a discussion on the safety net, and particularly crop insurance. Dr. Babcock, I read your testimony, and as you know, I have been a fairly strong advocate of reforming the crop insurance program because back home, when I talk to my producers, it's not working for them, even though we are investing, as you point out, a substantial amount of resources to that.

And one of the things that was kind of interesting to me, going from the statewide to the county was that was a similar stereo that I introduced when we were putting together the current farm bill, is being able to put a GRIP program on top of a multi-peril and which was triggered by the county yield. Your scenario, though, I believe, is one where you basically convert the whole crop insurance program, I guess, to a countywide program, but you do mention in there if you want to carry a multi-peril or a crop hail or something like that. Are you thinking that that is a – would that be a revenue program or yield-based, or what is your proposal?

Dr. Babcock: It could be either a yield base or a revenue base. The yield base would work pretty well because we have futures and options markets out there that allow most crop farmers to manage their price risk. It's difficult to manage their yield risk. And the reason why I suggest that the first layer of coverage would be the county rather than the underlying farm level is because a lot of the risk is represented at the county level. A lot of the farm level risk is represented by movements in the county yield. County yields are very easy to calculate – NASS does them every year – so the administrative costs of that are far lower, and I think a lot of farmers would find they would not need the supplemental coverage.

Now, in terms of the – the last comment I'd make in terms of revenue versus yield, one problem with doing revenue is that when the price is very high, you're providing a tremendous amount of coverage on price, so even if the price moves from a very high level to not so high, but a good level, you can still be on the hook for lots and lots of payments. And so – but it seems like the world is moving more towards income insurance, and so then you would want to do some kind of a revenue basis. But that would be the only caveat I had in terms of how much protection are you actually providing.

Rep. Neugebauer: Well, I find this interesting because basically what your proposal is is kind of the reverse of mine. I would look forward to talking to you about that. I think one of the things that we've got to do, and the reason we know it's not working is even though we have added SURE and ACRE and made changes to the crop insurance program – we've got direct payments, counter cyclical payments – but we still have situations where there is a request by the industry for disaster payments, and so that means that all these safety nets that we have in place today aren't being the exact scenario of safety nets that we need.

And I think one of the things that certainly – and I appreciate the comments my colleagues are making – we do need to focus on production agriculture here. This is really not a farm bill anymore, folks. This is a nutrition bill. We just happen to have a little bit of a production agriculture title because a very small percentage of this bill – and it's a fairly big bill – is production agriculture. I guess the question

I have is do you think moving to this kind of process will make the farm bill more compliant when particularly it's been mentioned on cotton?

Dr. Babcock: For cotton it does have the potential to make it more compliant in terms of targeting income instead of just the two programs that were found to be noncompliant. But it would have to be designed carefully, and what level of coverage are you actually providing the cotton industry. So I think it has the potential for being more compliant than the counter cyclical program and the marketing loan program.

Rep. Neugebauer: Thank you.

Chairman Peterson: I thank the gentleman. Sorry about that. The gentle lady from South Dakota, Ms. Herseth Sandlin.

Rep. Stephanie Herseth Sandlin: Thank you, Mr. Chairman. Professor Hamilton, nice to see you. I have a former staff member of mine who's been a student of yours, Mike Traxinger.

Mr. Hamilton: Michael's doing very well, and he's tearing them up.

Rep. Herseth Sandlin: Very good. Glad to hear that. Well, as you know, he grew up on a family farm, the northeastern part of South Dakota. And in your written testimony, you emphasize the importance of beginning farmers. In the 2008 Far Bill, with the Chairman's leadership and support, Congressman Tim Walls of Minnesota and I worked on a number of provisions important to beginning farmers. In Des Moines, Iowa in a field hearing we had just a couple of weeks ago we heard some testimony as to how some of those provisions may or may not be working effectively for farmers in different segments of the agricultural industry.

I wonder if you can expound on some of your thoughts here on what more we need to do to assist beginning farmers. And from your perspective and your research and what you're seeing in the developments among kind of the younger generation in farming, are they beginning with traditional farms, with getting in on the business through livestock, through one of the commodities? Are they entering sort of different, more niche markets with more specialty crops?

And as they look for more support from farm bill programs, what do you think are their major concerns? Is it land prices? Is it the amount of sort of a downpayment that we could help them with, or is it more access to financing to help them with operating costs and equipment leases? And then you had also mentioned, in your written testimony, a new farmer corps and a food corps, and if you could expand on those a bit more.

Mr. Hamilton: Well, thank you, ma'am. And I apologize for not being with you in Des Moines. I was in Arizona giving a talk to a different agricultural group, in fact, a Kellogg Foundation meeting that involves the farmer corps. You know, on the new farmer issue, we had this forum in the city back in March. In fact, Mr. Traxinger and a number of our students came to it because part of my goal with our educational program is to help train the lawyers that are going to be out there in the county seats or up here helping design those programs.

And there's, I think, two programs that I believe have some real potential. We have the various land link and matching programs that exist in a number of states. California Farm Link is a good example. There's also a growth in incubator and farm training programs. And the Chairman has a land stewardship project in his state, and they have a farm beginnings program in which they're really taking people through training, not just in agriculture, but also in marketing and in business planning.

But if there was an observation that we came away from the forum with, it is that in our effort to focus on new farmers, they're certainly important. That's half of the equation. But part of the challenge here also is the availability of land, and dealing with the population of landowners who are making the decisions as to, well, do I sell the farm now, do I try to make some type of transition, do I rent a piece of it to a young family, or do I wait until I pass on and then whatever my heirs decide to do with it. And, in fact, if we had another project that we'll do to follow up, it will be trying to look at that question of how do we deal with the population of landowners.

I don't think that we've created the recognition within our communities for people who make those steps to try to bring somebody home, or let somebody come back home. I think of the awards that we give in agriculture for being the top corn producer or soil conserver. I'd like to see where we had an opportunity to reward and thank people who went out of their way to try to put more people back on the school bus and going out of their way to do that. And so certainly tax policy is one of the ways you can do that. In Iowa we have a tax credit that's available for landowners who rent or sell their land to beginning farmers.

Briefly, on the new farmer corps issue, I wrote an editorial on that shortly after the election, looking at the whole question of how we could tie national service opportunities to try to create a way to reach what I see as this growing population of young people who are interested in being involved in food production. And just next week, in Detroit, as part of a larger conference on farm to school marketing, which is something that the committee has supported in the farm bill, there is a meeting to design a pilot food corps program, and they're working with the AmericCorps people to fund a pilot that will put people into schools, helping run school gardens.

It's certainly not the same thing as being out on the farm in agriculture, but it's involved in food production and it's helping educate children about the availability of nutrition, and also helping to try to make those linkages between farm to school marketing and the schools that would be involved with those initiatives. And so that's at least the next step of where the farmer corps or food corps idea is going.

Rep. Herseth Sandlin: I appreciate your response, and my time is up, but I think that marries well into the Healthy Start program and the school breakfast, but maybe we'll have another round.

Mr. Hamilton: I'm sorry to go over time.

Rep. Herseth Sandlin: No, that's okay. Thank you. Thank you, Mr. Hamilton.

Chairman Peterson: I thank the gentle lady. The gentleman from Louisiana, Dr. Cassidy or are you first? I'm backwards. I'm sorry. The gentle lady from Wyoming, Ms. Lummis.

Rep. Cynthia Lummis: Thank you, Mr. Chairman. Now I'm dating myself, but when I was a kid, we learned about the nutrition pyramid from 4H, and a lot of the problems that we seem to be addressing as adults now in Congress about childhood obesity seem to be addressed pretty well in a rural setting, when I was young, through programs like 4H. Is 4H dead in terms of its influence on these issues? It seemed so well embedded within the land grant university system, and the land grant university outreach, and cooperative extension that it seemed like the perfect delivery system for nutrition guidance and education to young people. And I just wondered why that is no longer the case. And I pose that question to any of the panelists.

Mr. Hamilton: Well, I wouldn't think that 4H is dead. Certainly the millions of people involved in it wouldn't believe that. But I think part of the question might be the reach and the – 4H may reach those of us that grew up on farms, and it certainly has expanded some into urban areas, but 4H wouldn't come to my mind, necessarily, as one of those institutions that would be present in a lot of the places to deal with the question of nutrition education to children certainly in urban settings.

Rep. Lummis: Yes, sir.

[Dr. Paarlberg]: I'd like to see a study on nutrition outcomes among 4H participants versus non-participants in the same demographic. That would be fascinating.

Rep. Lummis: Anyone else? Yes, ma'am.

Dr. Kinsey: I really don't know, is the answer. I think that the idea that it just doesn't reach a very large population is the biggest part of the answer.

Rep. Lummis: Well, thank you. My next question is actually for both Dr. Paarlberg and Mr. Chairman, and it goes back to our farm programs and your comment earlier that some of the larger industrial farms are receiving farm subsidies. When I look at the Internal Revenue Code, it provides that as your income goes up, you're no longer allowed to take your deductions. When I became a member of Congress and got this salary compared to my old salary, then my charitable deductions to my church and so forth disappeared; I no longer get to take them.

And I'm wondering if there's an analogy that could be made to farm programs, where the larger you get and the less, essentially, you need a subsidy, does it make sense to begin to phase them out? And Dr. Paarlberg, in your comments, you might seem to agree with that remark. Mr. Chairman, I suspect would not. And I'm just curious – oh, Mr. Chairman's gone. So I was just curious about how you might react to that.

Dr. Paarlberg: Of course there are longstanding tussles, usually between the executive branch and the Congress, over payment limits for each program and over eligibility based on income for the various programs, and the pattern is that the President, whether it's President Bush or President Obama, will propose tighter limits than the Congress is willing to accept. And I think I would count myself on the executive branch side of that argument.

Rep. Lummis: Okay. One more question, and it deals with, Dr. Paarlberg, also an issue that I'd like to visit with you about, and that is you had mentioned in your testimony that there are some development programs that don't have sufficient public support, whereas the private sector is supporting them, and it's things like drug programs. I would argue that you are correct, that brucellosis, for example, is an issue, a livestock disease that needs attention.

The University of Wyoming, my alma mater, is working on some more efficacious drugs to deal with the brucellosis issue around the Yellowstone Park area. Do you think it's a fair statement that that may be an appropriate role for grants to universities? I know that the emphasis of late has been on dairy related diseases, but other bovine issues as far as disease programs or disease eradication problems are unable to access those same funds. Any comments on that?

Dr. Paarlberg: I think you're right. If you hand over responsibility for food and agriculture research to the profit making private sector, some problems will become orphaned, because they're just not large enough, from the vantage point of a corporate lab, to make a front end investment. And that's not how agriculture got strong in America. It wasn't by waiting for private corporate labs to make the investment.

We have a wonderful history of publicly supported agricultural research. We drifted away from that tradition in the 1980s, when it became fashionable to imagine that everything could be done by the private sector. But our history indicates that the private sector serves some farmers and some crops extremely well, but it doesn't serve all farmers and all crops. And the dollar value of public investments in research in generating long-term productivity growth just really can't be matched by anything else.

Rep. Lummis: Thank you, Madame Chairman.

Madame Chair: Thank the gentle lady. The Chair now recognizes the gentle lady from Pennsylvania, Ms. Dahlkemper.

Rep. Kathleen Dahlkemper: Thank you, Madame Chairman, and thank you to our panel today. It's been very interesting, all the questions and answers. I have a question, Mr. Babcock. I want to kind of go back to the first question that Mr. Holden asked you. I was also at the field hearing that we had up in Pennsylvania regarding dairy a couple weeks ago, and our Secretary of Agriculture in Pennsylvania, Mr. Redding, had suggested – he already answered one question about the LGM program for dairy – but Mr. Redding also suggested an extension of the sales closing period for LGM dairy, and he thought that would encourage more producers to actually take advantage of this new risk management option. I was wondering if you could speak to that.

Dr. Babcock: Thanks. We already did extend it once, and so we used to sell the LGM dairy – I think when the markets closed on Friday, they had until the opening of the markets the next day. That gave a very short window. Now what we do is that we sell it at the close of market on Friday until 6:00 the next Saturday, 6:00 or 8:00, I'm not exactly sure, but the whole day Saturday. I know it's not very good. But the thing about LGM is that it's a 100% market based insurance instrument, and the philosophy behind it is that you don't want to sell something that is not market based, and so that's why. So the most we could do is sell it over the weekend before the markets open on Monday.

Rep. Dahlkemper: Well, what can we do, do you think, to encourage our producers to take advantage of this program?

Dr. Babcock: The frank answer is subsidize it. Make the premium more affordable. Right now it's fully priced with a load, so it's more than fully priced. There's no premium subsidy on it at all. And so I think the experience with crop insurance and other things are that if you don't help the producer buy that risk management, they will choose not to buy it.

Rep. Dahlkemper: Thank you. I also want to ask you another question. I couldn't help but observe your body language during a previous question regarding subsidizing fruits and vegetables. Can you give me your opinion?

Dr. Babcock: The problem with subsidizing fruits and vegetables is that those markets are pretty tightly integrated. That is, if you subsidize, say, a subset of a fruit or vegetable, the supply response would be so tremendous that you would flood the market and destroy the market. And what I mean by that is – give you an analogy. If you subsidize corn, to a certain degree you'll get more corn, but we already plant about 90 million acres of corn. We're not going to double corn production in response to a subsidy, so we won't destroy the market for corn.

If we subsidized, let's say, carrots, carrots are produced on maybe 200,000 acres, maybe less in the United States. We could easily find another 200,000 or 300,000 acres of carrots if we subsidized them a little bit. And so what would happen if we doubled production of carrots? The price of carrots would fall to nothing, the profitability of carrot production would go away, and we'd destroy the market. So that's why you saw my body language. For small production, you have what's called a very elastic supply response to subsidies. With big crops, you don't have that very elastic supply response. That's why I suggested it.

So then, on the other hand, I started thinking most of the price of – if the purpose is to make them more affordable, most of the price of fruits and vegetables are in the distribution, the shipping, the handling, the harvesting. If you wanted to subsidize it, it would probably be better to subsidize the delivery to areas that don't consume them, and to inner city areas that don't have good markets for fresh fruits and vegetables. That would be a better use of money than to pay farmers to grow more of them.

Rep. Dahlkemper: Thank you. I appreciate that answer. Very interesting. I have a huge interest in nutrition and obesity issues. I spent much of my life working on these issues in my previous career, so I wanted to go back real quickly, because I only have about 25 seconds left, but Dr. Paarlberg, you talked about the SNAP program, and you talked about eliminating caloric sodas, basically. Are there any other foods that you would look at as limiting in terms of the SNAP program? Is there anything else that's been investigated?

Dr. Paarlberg: I don't know if you can define candy tightly enough to make an enforceable exclusion, but that would be my next candidate.

Rep. Dahlkemper: Okay. Well, thank you, and my time is up. I have many other questions, but I appreciate your time today. Thank you.

Chairman Peterson: Thank the gentle lady. The gentleman from Louisiana, Dr. Cassidy.

Rep. Bill Cassidy: You know, you can't define candy, I suppose, but when I lived in California 20 years ago, they instituted the junk food tax. Now, there must be an operational definition that California used, and I know other states have proposed a junk food tax, so to speak. So could you, again, not just caloric soft drinks, but other high density, high calorie foods, as California, I think, did 20 years ago, or tried to do, could you also remove their eligibility for SNAP?

Dr. Paarlberg: Not a specialist. My guess is you'd have to do a lot of preparatory work to make sure that the dividing line between a junk food and a near junk food was clear enough, and would show up on the right bar codes to make it enforceable at the checkout counter.

Rep. Cassidy: But that seems a database problem. I mean, it seems we could accomplish a database problem. Mr. Babcock, going back to – subsidy is actually relative, right? If you will, you don't have to subsidize fruits and vegetables if you don't subsidize something else. So just speaking conceptually, if you take – man, I walked in and thought, what's a guy from Wellesley doing here? But anyway, now that I've answered the question, if you say, okay, we're not going to allow SNAP to give you full value for high density, high caloric foods, but you do allow that for fruits and vegetables, it's effectively a differential subsidy for fruits and vegetables in the inner city store, correct?

Dr. Babcock: That's correct, because the demand would shift over towards the fruits and vegetables because of the relative price change. That's correct.

Rep. Cassidy: Yeah, so you wouldn't necessarily increase the – artificially increase production, but you would potentially increase the consumption, again just by creating a price differential, if you follow what I'm saying.

Dr. Babcock: That's correct. You'd subsidize consumption of it, but not the production, and that's what I was trying to get at. If you lowered the price, you could either directly lower the price through a subsidy or lower the price through infrastructure investments to lower the cost of getting those fruits and vegetables into inner cities.

Rep. Cassidy: So Dr. Kinsey, what do you think about that concept? I was looking at your testimony, and obviously nutrition is what it focused on, in part, so what would you think about taking…SNAP is not eligible to use for however California wants to define it, and so therefore you have a relative subsidy of fruits, vegetables, other high fiber foods, for example. Any thoughts about that, the wisdom thereof?

Dr. Kinsey: One thought is that it's very difficult to make a dividing line between what some people call good food and bad food, and most nutritionists like to talk about good diets and bad diets, and that no individual food is bad; it's just bad when you over consume it. However, to reduce that over consumption, one way to do it would be through the disallowance in the SNAP program or in the school program. And as we know, many beverage companies have taken high sugar or high sweet content beverages out of schools. I totally agree that the whole object here is not necessarily to subsidize the farmers of avocados and almonds and carrots, but it's to make those kinds of products relatively inexpensive compared to where they are now.

Rep. Cassidy: It's all relative. And Mr. Babcock, what I also just learned from you, if the cost of, on the grocery shelf, of fruits and vegetables is related to its transportation, harvesting, etc., if you increase the fossil fuel based inputs, you're going to disproportionately increase the cost of fruits and vegetables. So as we go to a cap and trade type system, if you will – I've never thought about it, but your distribution network disproportionately affects fruits and vegetables, fair statement?

Dr. Babcock: Well, disproportionate relative to what? I'm not sure.

Rep. Cassidy: Say for a large commodity like rice. You can put rice on a truck and take a whole bunch of it, and it can sit around for a while before it transports because it stores fairly well. But something time sensitive like blueberries you'd have to move quickly, and it doesn't matter what the traffic patterns are, it's got to move, etc.

Dr. Babcock: When I was saying transportation costs, I was including all the labor involved in the distribution system. The actual fossil fuel cost of transporting fruits and vegetables and rice and other things is relatively low. Relative to labor and other costs.

Rep. Cassidy: Okay, I yield back. Thank you.

Chairman Peterson: Thank the gentleman, and I want to thank this panel for your excellent testimony and the answers to the questions. I think we've raised a lot of interesting questions and had discussions that we normally don't have here in the Ag Committee, which is good, and we appreciate you being with us.

With that, we'd like to excuse this panel and call the next panel to the witness table. Dr. Scott Brown from the University of Missouri, FAPRI; Dr. Otto Doering from Purdue University in Indiana; Dr. Paul Ellinger from the University of Illinois; and Dr. Daryll Ray from the University of Tennessee. So gentlemen, welcome to the committee. Your full testimony will be made part of the record. We encourage you to summarize.

We have votes coming up possibly in 20 minutes, 30 minutes, so we might have to put you at kind of a disadvantage here. We may get your testimony in and then we might have to make you wait until we get done voting, if that's okay. And you might be able to get lunch, because it's going to take an hour or maybe more. Anyway, welcome to the committee. Dr. Brown, the floor is yours.

Dr. Scott Brown: Chairman Peterson, Ranking Member Lucas, and members of the committee, thank you for the opportunity to appear today to review ag policy as the beginning stages of the 2012 Farm Bill occur. FAPRI looks forward to the opportunity to provide this committee with unbiased analysis of the many policy proposals that will surface, just as we've done over the past three decades.

It is true that animal agriculture has faced extreme changes in economic wellbeing in the past five years. Livestock and dairy producers have found themselves in the position of making strategic and tactical decisions that seem correct one day, but prove to be absolutely disastrous the next. This quickly changing economic environment has made everyone look for ways to reduce the impacts on market volatility.

First it's important to realize the magnitude of changes and factors outside of the direct control of animal agriculture. The recent economic downturn in the U.S.

economy was severe by historical standards, and had not been experienced since the early 1980s. This economic downturn followed strong growth in real GDP over the 2003 to 2007 period. World income growth also experienced a historically large contraction in 2009, the first contraction in the last three decades. This contraction followed above average growth over 2003 to 2007. Many sectors of animal agriculture were gearing up for the new and growing demand for their products, only to find contracting demand just as the production response was kicking in.

Second, these sectors have also seen a substantial rise in production cost over the past five years as prices for nearly all inputs have experienced large increases. There are some interesting observations one can glean from the ERS's annual production cost estimates. For milk production, operation costs rose 15% in 2007, followed by an additional 22% rise in 2008, the two largest since 1980. For a long-term perspective, milk production operating costs rose by 24% over the 16 year period 1990 to 2005. However, in just the past four years, milk production costs increased an additional 28%.

Third, disease events and their impacts on trade have added to the volatility animal agriculture has faced. BSE and H1N1 influenza outbreaks are just two examples. These are unlikely to be the last disease or trade events these industries will experience.

To understand more about the magnitude of the volatility that exists for producers, we can turn to the variability in cash receipts from farming. According to USDA, livestock cash receipts increased by $20 billion in 2007, and then fell by $22 billion in 2008, extremely large changes relative to historical standards. This certainly highlights the added volatility in cash receipts the industries have faced in the last decade, and also highlights that volatility has its ups as well as its downs. These industries experienced a severe price cost squeeze between 2005 and 2009. Cash receipts declined by $6 billion alone, while feed costs increased $16 billion.

The Dairy Product Price Support Program has been a longstanding part of federal dairy policy. This program essentially provides price floors for support of dairy products. The program can become more challenging to use in an environment of commercial exports of dairy products out of the United States. More important to the discussion today is the effect that the Dairy Product Price Support Program has had on producer income volatility. As price support levels have been lowered over the past three decades, it has allowed for more price volatility that the industry began to experience in the late 1990s. With the rise in production costs that have occurred in the past five years, the support provided to producers by the Dairy Product Price Support Program has weakened considerably.

The Milk Income Lost Contract Program is a counter cyclical direct payment program first implemented in the 2002 Farm Bill. The annual cap on marketings eligible for MILC programs is currently set at 2.985 million pounds. Very large producers have not found the MILC program beneficial, largely as a result of the limit. In the 2008 Farm Bill, a fee cost adjuster was added that raises the target price in months where the reported dairy ration value exceeds $7.35 per hundredweight.

Perhaps the most important parameter to discuss is the 45% factor imposed on the difference between the target price and the relevant milk price for the month. Producers get 45 cents per hundredweight and a direct payment for each one dollar the relevant milk price falls below the trigger level. This MILC feature does not create a solid price floor, but it is a soft floor that lets producers feel additional economic pain as prices fall further from the trigger level. There are tradeoffs between a program that has a hard floor versus one that shares the loss of milk revenue between the level of government outlays and producer payments like MILC.

Some of the earlier discussion surrounding the 2012 Farm Bill has focused on offering whole farm insurance options to reduce the volatility in producers' bottom lines. Many of these options look promising. It remains to be seen the exact program operation and parameters of these proposals, as there will certainly be tradeoffs between overall program costs versus the degree of volatility offered to producers. I'll be happy to address any questions that the members may have today.

Chairman Peterson: Thank you very much, Dr. Brown. We appreciate that testimony. Dr. Doering, welcome to the committee.

Dr. Otto Doering: Thank you very much, Mr. Chairman. I feel it's very important that we think a little bit about where we've come from while talking about where we're going to go. If you go back to Chief Economist Howard Tolley in 1940, he laid out three objectives for farm policy. One was to help the large commercial farmers maintain viability, another was to raise the incomes and improve the conditions of those disadvantaged in agriculture, and a third was to encourage better land use, conservation, and more efficient production. He made the comment then that we've done pretty well on the first one, but the last two are still lagging, and I would agree with that today.

I think one of the things we have to recognize is that the goal of income parity of farm people versus urban people has been achieved. Our chief concern now should be volatility. I am less favorably disposed towards direct payments, which do not address the volatility question. I'm also conserved with the negative perception of taxpayers with respect to the cost of direct payments, and it doesn't deal with volatility, both on the input side, which was just mentioned, as well as the price side. I think we're going to have to look seriously, I would argue, at folding down or discontinuing direct payments.

But the thing that I would like to emphasize here is that we have a three-legged stool of support for farmers. One of these are the traditional program, the safety net programs. Another is insurance that Dr. Babcock has already addressed. And the third is disaster payments. And if we go ahead with the farm bill, they should be crafted together, looking at the influence of each upon the other. We have not been able to do that successfully in the past. Congress has never been willing not to give disaster aid to farmers in trouble, irrespective of what that does to undermine the insurance or the payments situation.

Let me turn for a second to conservation, which no one else has talked about. I think we're doing some terrifically good things there. I think that there are some things that need to be done. I think CRP is doing its job. This is not highly productive land that is in the program; this is land that primarily shouldn't be farmed. I think EQIP is doing a good job, and I would hate to see money taken from EQIP for the nutrition program. I think NRCS's recent Mississippi River Basin initiative is a big step forward. I think we've got to target payments. This is something that is against our tradition, which I outline in my testimony. But to get the most effective use of conservation payments, we're going to have to target them to those areas that cause the biggest problem. The Conservation Effects Assessment Program is tremendously valuable for trying to ferret out what works, what doesn't, and allow us to do adaptive management.

Let me turn for a second to bio fuels. I am very concerned about the notion of breaking the blending wall by increasing the amount of ethanol blended to 15%. I think this would come largely from corn ethanol. I feel that we are at the edge of our land base, and while we are increasing production per acre, I think this would put real stress on markets. I think it would put real stress on the livestock industry. I also think it would affect sustainability. And I think we just have to think of it as to how far do we want to go with this.

The last thing is related to what Professor Babcock said about the demand for various agricultural commodities. When petroleum prices are high, the ethanol plant can pay to infinity to pay for corn. If we have a third of the corn crop already going for ethanol, and you increase that by 50%, and you have high petroleum prices, you are going to see $8 corn prices again, and I do not believe this variability is good for the system.

Last, a colleague of mine, [Lyle Shirtz], some years ago made the comment that in the United States we have a tendency to socialize losses and privatize gains. We've seen that in the recent financial crisis. We can see it in some agricultural programs. This nation no longer has the resources to be able to do this continuously, and in addition, we aren't even willing to tax ourselves to do what needs to be done now, let alone tax ourselves to be able to continue to do this. Thank you very much.

Chairman Peterson: Thank you very much, Dr. Doering, for that testimony. Dr. Ellinger, welcome to the committee.

Dr. Paul Ellinger: Good morning, Chairman, Committee, and observers. I'm pleased the committee is doing these hearings at this time, and setting the stage for the farm bill. My role, as I understand it, is to discuss the area of credit, and I also will spend a little bit of time talking about the funding issues related to land grant infrastructure.

First credit. I did provide some data regarding the market shares, loss rates, and individual lender data in the written testimony, but let me summarize. In general, ag lenders have performed well through the crisis. They continued to offer credit during the crisis, and they continue to do so. Agriculture, as an industry, uses a lower amount of debt relative to other sectors. If you compare the total amount of debt in the sector of $250 billion, it is dwarfed by what has been spent in Wall Street at the larger institutions in the recent past. We have a very diverse set of lenders in ag. We have two GSEs that continue to perform, and have good capital positions. We have large banks lending to a relatively large sector, and thousands of community banks that continue to be successful in providing credit to agriculture. Loss rates, although they have been increasing during the first part of the crisis, they're not near at the level of the other sectors in our economy.

The key stress sectors in the portfolios of ag lenders are dairy, pork, poultry, ethanol and timber. The increased unemployment in rural areas has certainly impacted debt repayment capacity of many farmer borrowers. Historic repayment capacity has relied very heavily on non-farm income, and this is being jeopardized with the amount of unemployment in this area.

Now, related to the policy issues related to credit, if we're looking at continued access to credit and credit availability, I think that one of the most important pieces is what Professor Babcock talked about this morning. Having adequate risk controls in place will allow credit to continue. I think this is a very critical piece as we continue to look at making tweaks to the system and changes in risk management. I think the risk management and the risk management aspects will be very important to lenders in the future.

My concern is risk in the sector is being pushed back to the producer. Mr. Lucas talked about increasing interest rate risk. We have increasing volatility in commodity markets. We have increasing risks related to contractual and counterparty risks. A lot of this risk now is going back to the producer, and we need mechanism for risk management and risk education as a result of that.

Continuing expanded funding to the direct and guaranteed programs administered by the Farm Service Agency are also very important for the development of beginning farms and ranchers, socially disadvantaged farmers and ranchers, and selected family size operations. These credit programs have been successful and are well understood by the agricultural lending community. Consideration should be given to increasing the borrower limits. We've had increases in farm real estate prices, equipment is more expensive, and fuel, fertilizer, seed, rent costs are much higher. Credit limits of $300,000 may be insufficient to meet the needs of moderate size family operations.

There are many intersecting issues surrounding the current financial regulatory form. Restructuring or consolidation of financial institution regulators are being considered by another committee, but the Farm Credit Administration has been a strong independent regulator for Farm Credit System and Farmer Mac. This is especially during the financial crisis, and in my opinion, is the best interest of the two successful agriculture GSAs for FCA to remain as their primary and independent regulator.

In summary, most agricultural lending institutions have navigated the turmoil through prudent lending, effective underwriting, strong capital management and successful risk management. New and increasing risk in agriculture will result in more winners and likely more losers. Risk management by lenders and borrowers should be a high priority.

In the next segment, I'd like to talk briefly about the issues facing our land grant infrastructure. As the farm bill discussion evolves, establishing the next federal framework for food, agricultural, natural resource and rural development policy, I would be remiss in not calling attention to another watershed of change taking place right now with respect to research, education and extension infrastructure that has served us so well for many decades.

Today, many of the most urgent issues facing policymakers fall squarely within the purview of the land grant system, such as food, global security, climate change, use and protection of land, water and other resources, health and nutrition and energy independence. However, for the last two decades, federal investment in this has stagnated and is nominal, and we've had declining real investments in [hash] and appropriations.

To summarize, since we're close to running out of time, we are looking at the states disinvesting in our structure and our ability to do things like 4H, like extension, like our experiment station research, and we are at a time when we need to be thinking about what we need to do to invest in our next century of land grant institutions. Thank you.

Chairman Peterson: Thank you very much, Dr. Ellinger. Dr. Ray, welcome back to the committee. Glad to have you.

Dr. Daryll Ray: Well, thank you for the opportunity to talk with you and to interact with you. I think that there is a possibility that we might get lulled into thinking that the three to four dollar prices of corn and prices that correspond to that for other crops are going to be the future, and I'm not convinced. And so what I think we need to do when we look at policy, or one of the things I think we need to do is to look at how it reacts and how it protects farmers, and maybe consumers and others that are involved, all the stakeholders, at the extremes, when we have extremely low prices and extremely high prices, because if history has taught us anything, we will have both. And we've had that in the last decade, actually. In 1998 to 20001 we had extremely low prices, and of course prices exploded about ten years later.

And I want to talk about some of the specific types of programs and how they might react to those kinds of extremes. There's a lot that can be said positively about the ACRE program, but I do think that, as Dr. Babcock mentioned, when prices are very high, that is when the ACRE program does the best job of providing benefits to farmers, and therefore would cost taxpayers potentially a considerable amount of money. But on the bottom side, we don't have that kind of protection with the ACRE program, I would argue. If the prices fall, for one reason or another, the protection level, the safety net is going to be dropping with prices, and at some point, why, there would actually be very little or no protection at all. In some ways ACRE is a revenue smoother over time, and it's not a consistent provider of counter cyclical protection, and so I think we need to take that into account.

In a number of the analyses that I've seen, some of which look at the current price picture, others look at the averages over, say, 1980 on, those numbers tend to indicate that ACRE would be beneficial to farmers, but what I would want to look at is how it performed, or would it have performed in 1998 to 2001, when we had low prices, and I think we need to have that information as policymakers and also as farmers if we're going to use that kind of program. So that's one thing that I wanted to focus on and to lift up.

I want to talk a little bit about exports, too. I think that one of the reasons that we've gone to the payment kinds of programs that we have for agriculture now is because of the export centric narrative. That is, we believe that the supply management and price support programs that we once had were preventing us from keeping our customers, and if we lowered the price, why they would come running right back.

And then the other aspect is that we've had a lot of folks that have said that population growth, income growth around the world is going to make agriculture prosperous, and it's going to happen any time now. But over the last 20 years, it really hasn't happened. In fact, if you take the total tonnage of the three major crops – wheat, corn, and soybeans – we are actually exporting the same amount today as we did in 1980, and of course as a percentage of production it's been going down. So I think it's important not to think that exports are necessarily going to save us.

In the time I have left, I just want to throw out some fairly disjoint things. I think that excess capacity is likely to return. And we can talk about that in more detail later. I think it is possible to have lower prices again, two dollar corn. There's nothing to stop it. We don't have the kinds of protections in place that we've had in the past, so if conditions are right, it indeed could happen. I think that it's unreasonable to think that if we had complete trade access, complete freedom of trade, that we could do away with our farm programs. I don't think that that kind of activity would change the nature and structure of agriculture, and I think it would be difficult to see that. So with that, I will quit. Thank you.

Chairman Peterson: Well, thank you very much. Thank all the panelists for your excellent testimony. We have votes. I don't know what your schedules are, but would it be possible for you all to return, say around 1:00, so you can have lunch and then we'll come back and we'll have the questions at that time? Because I think these votes may last till about 1:00, so does that cause a problem for anybody? No? All right, then why don't we just set a 1:00 time, and we'll be back here, and there will be some other members that will come back, I think, at that point, and we'll have some questions. Thank you all very much. The committee will be in recess till 1:00.

[*Recess*.]

Chairman Peterson: …towards the end of the day. I don't know if we may have some more people join us, we may not. We appreciate the witness' patience in sticking with us. I guess Dr. Ray brought up an issue that I have been concerned about, and that is what happens if we get into another downturn in prices with the current system. I think, well, obviously in dairy they've figured out what happens, and they're working hard to try to change it. But I'd like the thoughts of the other panelists about that issue.

Dr. Doering: I agree with Daryll. I think it is possible. I'm not sure it's probable. I guess I'll go back to my original sort of structural argument, and that is our programs developed from the 1930s as safety nets, complete with the loan rates, and with the set asides, and with the storage programs. We moved to target prices and then had the political ability to send the farmer a check. I guess I believe some of these old vehicles are still equally viable in terms of dealing with some of these eventualities.

Chairman Peterson: What do you mean by old vehicles?

Dr. Doering: The target price, the loan rate, that these things can be operative when prices collapse. They can give support to farmers. I'm not sure I'm willing to go back to storage programs. We did structure these to perform that function before. We can do so again. It depends upon where your triggers are, it depends upon what your target price is, it depends upon what you do in terms of how you figure if we're dealing with a yield problem in a bad weather year, where you put those targets. But these devices are capable of doing these things.

Chairman Peterson: I guess I agree with that. I'm not sure we have the money to get these loan rates and target prices up enough, given the new cost structure that we're involved in. That's the thing I've been struggling with.

Dr. Doering: I would argue with you if you give up the direct payments, it will give you a little money to work on the target prices and the loan rates.

Chairman Peterson: I've heard that. [*Laughter.*] Dr. Ellinger?

Dr. Ellinger: I don't have a real lot more to add. I'd also agree with Otto on the probability of that as well, given the floor that ethanol has now provided for corn and the likelihood of going down to that. But I could at least respond to the fact that if it did, regardless of how we got there, being that that's so far below the cost of production and what we'd have, and Illinois producers and the amount of loss that would occur, if the data would support that, when we go back to those income levels in Illinois, and the net losses that would occur if we were at that levels would be substantial. But again, the probability of that happening may be relatively low, given what we have. And then with the opportunity to have the crop insurance underneath what we have in Illinois to support some of this as well.

Chairman Peterson: It looked like you were going to say something, Dr. Brown.

Dr. Brown: I think I'd certainly like to add that it seems like one of the questions we have to face is whether the supply sides of these industries have changed substantially over the past several years. I think the dairy industry found itself in a situation where potentially supply has gotten much more less responsive, especially in a low price situation. I think many of us thought going into late 2008, early 2009, we couldn't see all milk prices below $12, given where cost of production had risen to, but that's certainly not the case.

And if you believe we've become less responsive in this down price situation, it certainly just exacerbates the chance that when we do have demand shifting to the left for, let's say corn, that prices can move a lot lower than we would have ever once imagined, and then we're seeing signs now of adjustments in the livestock industry that they are adjusting to those higher feed costs, and I think that's going to play into the demand for corn as we look ahead as well.

Chairman Peterson: I'm going to violate my rule here, if that's all right, Mr. Ranking Member.

Rep. Lucas: Go right ahead.

Chairman Peterson: You know, in the past we've always had the same program in Title 1 across all the commodities, but now it seems to me that you have a much different situation between these crops in terms of where they're at in the marketplace and what other kind of support they have and so forth. Does it make sense for us to look at having different types of programs for different crops? For example, the cotton situation, maybe I could say rice, too, peanuts, are very different than corn and soybeans. And wheat is a little different than those crops. So does it make sense for us to have the same type of system for every crop, or should we look at having different types of support for different crops, depending on their situation? Daryll?

Dr. Ray: The situation that you described with regard to cotton and rice and peanuts would suggest that that may be the case, in my view. I think that from what we're hearing from the farmers that produce those crops, the direct payments are an important part of what they depend on and what their creditors depend on. And so the direct payment part, although I have trouble, in general, figuring out what the purpose of direct payments are, especially when we have the prices that we've seen the last two years, but for some crops it seems to be important, so I think that would make some sense.

Chairman Peterson: Anybody else want to take a shot?

Dr. Doering: But in a sense we already have – if you look at the cotton program or the peanut program particularly, we already have modified those crop programs so that they are somewhat different. I understand what Daryll is saying in terms of the importance of the direct payments, particularly for the bankers for those other crops. I guess one of my concerns with the direct payments is that is the first and foremost government subsidy that gets directly put into land prices. It gets capitalized almost immediately into land prices. Now, one of the problems is then when you withdraw that, if you try to withdraw that direct payment, you're going to put a little bit of softness in the land market. I think we're doing some of this differentiation already. I think it makes sense. But I still feel there are real problems with the direct payments.

Chairman Peterson: Anybody else? Well, thank you. The gentleman from Oklahoma.

Rep. Lucas: Thank you, Mr. Chairman. But gentlemen, don't all government subsidies or payments or investments, however you want to describe it, in agriculture, don't they all manifest themselves ultimately in land prices?

Dr. Doering: Yes, absolutely.

Rep. Lucas: The best agricultural economists out there, and no offense, Dr. Ray. I sat through your class 30 years ago. The best agricultural economists are still those guys and ladies out there with the pencil or that pocket calculator or some spreadsheet they've cobbled together themselves, I mean, they calculate within a day everything we do, and they incorporate that into their decisions. If we could, for a moment, let's sit back and discuss just how we got to this point.

And whether you talk about direct payments since the '96 bill, or the old target loan rate systems before that, or whatever into the past, haven't we almost continuously, since the 1940s, gone through a cycle of when we invest too much or when we turn up the target rates or the loan prices we send the wrong signals and we saw production go up, and our predecessors then went through the painful process of turning target prices down and loan rates down to clear those surpluses off the market, and we'd gone through this wave process.

When I sat in Dr. Ray's class in the early '80s, we were suffering intensely through that process of trying to rebalance supply and demand out there. Where we are now, the direct payment program, since 1996, that's still a government investment that makes a tremendous effect on what producers decide and how they decide to do it. And even though since '85 we've had CRP, a dramatic reduction in supply, even though for the last couple of years when we've driven so many dollars towards ethanol and bio diesel, which has soaked up a lot of demand, aren't we still basically talking about how to account for the government's distorting effect when we help out there?

Dr. Ray: I would argue that if you look at the times in which we've had the most distortions, Mr. Lucas, they have been generated by not government programs, but other events, some of them political. For example, in the 1970s we had a tremendous run up in prices, and that wasn't because our policy early on. Now, we may have validated it with loan rates later on, but it was due to decisions that were made in Russia and circumstances that were outside of U.S. borders. And similarly, this last run up, although it was basically accelerated by the increase in the demand for ethanol and increased prices tremendously.

Rep. Lucas: And the reduction in supply affected by the carryover from the CRP decisions of 1985.

Dr. Ray: But then what about the low prices that we saw in 1999 and 2000, 2001? Apparently CRP didn't keep prices high enough at those times, and we ended up with $18 billion of payments, and in some states we had more payments than we had net farm income. So my view is that actually, what we've experienced in the last few years with payment kinds of programs is we've seen more distortions occurring in agriculture, sometimes on the livestock side, sometimes on the crop side, than we'd get if we changed the loan rate by 25 cents or a dime.

We had prices that were too low early on. I say too low in the sense that they were providing incentives for the livestock industry that didn't make sense in the long run, and then we didn't have a reserve of any kind that we could bring on when we had the ethanol spurt in demand. And there always will be those kind of random events. Keeping us kind of in a fairly decent band rather than outside that, I think makes good sense in terms of providing planning and for efficient allocation of resources in the long run.

Rep. Lucas: The rest of you gentlemen agree with that? Does Uncle Sam have to stay engaged to that level?

Dr. Doering: Your critical comment is "to that level."

Rep. Lucas: It's just that it seems like when we set a bottom, we automatically wind up setting a top, intentionally or unintentionally. When we have grain in reserve for a tough day, that becomes something overhanging the market.

Dr. Doering: Correct. With equal complaints from farmers at both ends of that spectrum. But in terms of involvement in agriculture, I guess my value judgment is that one of the key reasons for government to be involved is variability today, not necessarily the income level, and a lot of that relates to weather. A lot of it relates to the concerns that have been voiced by Dr. Babcock about crop insurance.

I think we cannot talk about loan rates, target prices, direct payments without putting them within the same discussion you have with crop insurance and disaster programs. They're all going to work. And what you don't want is for them to either accelerate the bad ends of each other or work against each other. I think the crop insurance questions are probably some of the most important ones in front of you today.

Rep. Lucas: Clearly the Chairman and I, while we are both great fiscal conservatives and very close allies in an effort to pass a farm bill, don't necessarily agree in every detail about how to deliver those resources and to accomplish that. I just worry, in my observations, that there's a tendency, when the government takes a particular action, whether it's creating and directing and deciding a target price or a loan rate, that there's a tendency for those good country economists out there to pursue those decisions in a way to try and maximize the return under the particular program. I have been a connoisseur of the direct loan program because I felt like it put the most onus on the individual producer's decision-making process.

Now, I know you can't grow every crop everywhere in America, but giving the most possible flexibility to the producers to make their decisions, to determine where they should go, seems important to me. I would also say that in the environment that the Chairman and I work in when we craft this next farm bill, not only will we have less money – and it doesn't matter who the next Speaker is, we'll have less money to work with – trying to convince our colleagues in Congress, in the United States House, that there is this great benefit that their constituents receive from having a federal farm bill is going to be even tougher than it has been in the past.

I appreciate the economic points all of you make, but we've got to convince the people we serve with that there's merit in having a farm bill, and in whatever mechanism we use to deliver those commitments. I just know it's going to be a tough grind next time, and there are some different points of view. And by the way, I did enjoy Dr. Ray's class, and I did learn a lot. He might not believe that to this day, but I did learn a lot. With that, Mr. Chairman, I'd yield back my time.

Chairman Peterson: I thank the gentleman, and we may be in more agreement than you realize, but we'll see what happens. The gentle lady from South Dakota.

Rep. Herseth Sandlin: Thank you, Mr. Chairman, and I, in may respects, agree, Dr. Doering, that the crop insurance questions are among the most important. And I think Chairman Peterson, in some of the field hearings that we've already had and some of the conversations that he's had with members of the committee, with other groups out there interested in the next farm bill, I think we recognize that the crop insurance issues are of the utmost importance.

Where I'm from in South Dakota it's the most important part of the safety net for a lot of producers right now, and I think there's some creative ideas that are being put on the table to look at what reforms may be necessary and how to make it work most effectively for most producers and to give the taxpayers the best return on the investment of those dollars in that program.

Dr. Brown, I'd just like to spend a little bit of time on the dairy industry. A lot of dairy in eastern South Dakota. A very challenging time for them. Where does the 2009 dairy margin rank compared to past historic bad years? Do you have that information?

Dr. Brown: I think it's safe to say that the margin itself is probably the worst we've ever seen. You potentially could go back to the early 1990s – 1990, 1991 – when we had a pretty tough time, but the combination of not record low milk prices, but very low milk prices, coupled with record high feed prices probably puts this one pretty much at the top of the list.

Rep. Herseth Sandlin: And so you think it was sort of the perfect storm of some variables that made it such a difficult year?

Dr. Brown: Absolutely. We were in situation where 2007, 2008 demand domestically and internationally couldn't have been better. We were giving producers the signal to respond with more milk production. At the same time, feed costs were rising. That was kind of masked with the fact that the revenue side was even increasing at a faster rate. And I just remind us that 2009 was kind of the worst economic situation we've seen in decades in this country and around the world, so we ramped them up with additional production and said the world could be ours in the coming years, and all of a sudden that moved away and just created the situation of very low milk prices, and oh, by the way, feed prices and other production costs, not just feed, continued to be at historically high levels.

Rep. Herseth Sandlin: In Des Moines, in a field hearing we had there recently, we sort of explored some ideas that have been put on the table, some that started getting some evaluation during the last farm bill. In your opinion, how does a producer protect against some of those risks, or all of the variables, and from our existing programs, or aspects of them, what do you think we should retain, based on some of what we've seen over the last year and a half?

Dr. Brown: Well, I think we can take some of the programs and look at them. The Diary Product Price Support Program, although it was very effective in reducing volatility in the 1980s, has really gotten low enough that it isn't providing, really, producers much protection. That safety net is pretty much on the concrete floor, as many producers will attest to in 2009. I know it's likely not possible to talk about increases in that support level, but it's certainly a program that in its current features and levels isn't providing much of a safety net.

The MILC program, I think there, you know, you have the issue of the production cap, 2.985 million pounds. A lot of folks, larger producers, don't feel like that offers much protection when they produce well above that level. But if I set that aside for a minute, the fact we're paying 45% of the difference between the Boston Class 1 and the trigger price, I guess I kind of come back and go you have a couple of options here, and one is when you think about providing support to producers, do you want some type of hard floor at some point, so instead of this 45%, where roughly every dollar decline producers only get back 45 cents on the dollar.

I mean, no producer would really want MILC payments. They'd rather have market prices above that level. So are you willing to reduce the target to give them a harder floor at some point in time as a way to protect against the really tough economic times like 2009? And there I think you can look at some of the insurance proposals that are out there that tend to be looking at operating in that way that would be different from current MILC operation.

In terms of what can dairy producers do, I think there are certainly a number of producers that are trying to use futures markets to lay off risk. Some of them have done it very successfully, some of them have not. I think we've all realized that you have to lock in both feed costs and milk prices if you're going to try to lay that risk off in these other markets.

Rep. Herseth Sandlin: Thank you. Thank you, Mr. Chairman.

Chairman Peterson: Thank the gentle lady. The gentleman from Idaho, Mr. Minnick.

Rep. Walt Minnick: If we take as a given that in this era of $1.6 trillion budget deficits that even at full employment may still be in the order of a trillion dollars a year, if a consequence of that is that we must reduce, by some significant magnitude, the cost of farm programs in the next farm bill, I want to explore with the panel the concept that has come out of the distress that my colleague from South Dakota just talked about in the dairy industry of essentially income insurance that presumably would come with a government participation in the cost of a subsistence level of income and producer, perhaps 100%, perhaps with some declining participation, participating in the premium cost of income above subsistence.

If one were to adopt that not just in theory, but adopt it for farm production generally, as the conceptual framework around which we would try to protect income without inducing excess production for farm programs generally, the question I would like to ask – it's purely theoretical and hypothetical at this point – but if we were to go that route, are there any crops that this approach would be ill suited to conceptually? Are there any particular crops that we should exclude from this kind of income program, and if so, why?

Dr. Ray: Can I comment in general?

Rep. Minnick: Certainly.

Dr. Ray: I think that maybe what we're assuming with that kind of a program is that there's kind of a bell shaped curve around an acceptable price, and that over time the prices themselves are okay, and so we're just going to insure against the low prices and we'll have the farmers participate in that. And I think it's easy for us to think about farm policy in general like that. The hard problem is if, instead of – and we talk about developing policies that don't interfere with the supply, in other words, don't increase supply and so on.

But you know, actually, most of the supply increase is coming from yields and productivity increases, some of which we support, as governments, to increase. And so most of the increase that we see in supply comes from developmental policies, I would say, and that oftentimes is what causes prices to go down. Costs can go down, too, on a per unit basis, but there's a lot of intervention that comes in from that direction. So suppose that we do have excess capacity because our yields do go to 300 bushels per acre for corn, and corresponding yields for the others, why then I think that we would see prices with an inelastic demand being pushed down sufficiently that that kind of a program wouldn't protect farmers as much as it might seem.

Rep. Minnick: Why wouldn't if they were guaranteeing a level of income that…based on assumptions with respect to production costs and prices, but you're guaranteeing the income, you're not guaranteeing either the…the subsidy isn't based either on the price of your final output nor on actual production cost.

Dr. Ray: If you develop that guarantee of income when prices and yields were in good shape, and you kept it that way and didn't allow it to be adjusted because prices went down, that would work. Or even if you just kept the price fixed and you continued to have that standard. But if you allow the standard to be a function of prices, as prices go down, so does the standard, and therefore the standard could actually not even cover variable costs after a while.

Rep. Minnick: But you could adjust your assumptions every year in order to have a reasonable start point.

Dr. Ray: If you did not use a running average of prices, but you kept them at the price level that you started with and just froze them there, that would work.

Rep. Minnick: Do any of the other three of you have an observation with respect to this, in conceptual form, and an opinion as to whether it would be superior or inferior to existing crop support loan payment kinds of incentives?

Dr. Doering: The superior or inferior partially depends upon your value judgments as to what's good and what isn't. The last work I did on this was some years ago, and what we basically decided at that time was that this was certainly something that you could extend easily to all the then program crops. We also did some work in terms of expanding a guaranteed income program to some major vegetable and fruit crops, and there it seemed to work as well. I certainly will not say that there aren't some crops out there for which it's not suitable.

Rep. Minnick: How about sugar?

Dr. Doering: We didn't consider sugar on this one. And there the question is at what relative income do you want to maintain sugar producers, just plain and simple. How much do you want to keep them above the world sugar price in terms of the income they get from the beet crop. I think sugar might very well be one, if you want to maintain domestic beet production at current levels, that that would be one that this would be a difficult one to deal with.

Rep. Minnick: My time has expired, but thank you very much for your thoughts.

Chairman Peterson: Thank you very much, Mr. Minnick, and I want to thank the panel. I just want to recognize Mr. Lucas for any closing comment he might, or one more question. But before I do, on the revenue program, one of the things that I've heard in my area is that the bankers wouldn't let them sign up because it wasn't a guaranteed kind of a thing, so they wanted to hang onto the loan because they knew what it was.

It seems to me we could craft the revenue thing so that it had some kind of guarantee with it. I would ask you to help us try to figure out how to do that. I think we need to go to county average. But if you could help us work with this revenue and give us some ideas about how to make this program more workable and maybe have some kind of transition with this, we'd appreciate it. Mr. Lucas.

Rep. Lucas: Thank you, Mr. Chairman, for holding this hearing. A fascinating two panels, and no doubt we'll be drawing on this kind of wisdom on many, many more occasions before we actually put that bill together. Thank you, Mr. Chairman.

Chairman Peterson: I thank the gentleman. I thank the panel of witnesses. We appreciate your patience in hanging with us, and we look forward to working with you as we look at ideas and try to figure out how to harmonize these programs and make sure they work the best for the taxpayers and for farmers as we go forward. Thank you very much. The panel is excused. And with that, under the rules of the committee, the record of today's hearing will remain open for ten days to receive additional material, supplementary written responses from witnesses to any question posed by a member. This hearing of the Committee on Agriculture is adjourned.

[*End of recording.*]