

Interview (Part 2 of 2) of
The Honorable **TOM VILSACK**,
Secretary of the U.S. Department of Agriculture

Conducted by **ALAN BJERGA**, Bloomberg News,

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SECRETARY VILSACK: Fickleness of weather in this stage underscores the inherent risk in agriculture. We've got great farmers in the State of Iowa, and they had a great crop, and they had prices that were pretty good. And now they are just inundated with water, and there's nothing they can do about it.

And when that happens, it's a good thing that we have programs that are designed to help them get through those difficult times that are not only beneficial to the farmers, but -- this is a point I made earlier this morning -- they're also beneficial to the consumer because it's one of the reasons why we enjoy both the choice of foods that we have and also the affordable nature of the food. So, you know, I think there's concern about the weather.

The second thing, I was really struck by the panel discussion because Iowa, if you're from the outside, would appear to be a State that was more traditional in its agriculture in terms of basic crop production, some corn and soybeans, and, you know, raising hogs, and most recently poultry, eggs and turkey, but what you saw today was a growing recognition of the need for diversification and the fact that there is a real effort underway in communities across the State to link up young people, who may not have had any farming background, with smaller operations because that's what they want to do. That, to me, is encouraging because it's about that entrepreneurship, that sense of innovation that is important for turning this rural economy around.

And the third thing I learned was that there is continued concern about the biofuels industry which is certainly understandable given the fact that the Congress has not extended the biodiesel tax credit and that there's some in Congress who are interested in eliminating some of the incentives for ethanol.

And then the final thing I heard was -- it didn't alarm me. It just sort of reinforced that Iowa producers are sensitive to trade, obviously interested in, as we are, a resolution to the Mexican truck issue because Mexico is thinking about -- is establishing some tariffs on pork, and the question is how steep they'll be. And we'll know that in the next couple of days.

So these folks are engaged, they're connected, and they are focused. They're interested.

MR. BJERGA: I was talking to them about the [inaudible] and that is sort of going on, and I will be just taking off and talking to various folks who were in an area and seemed sort of concerned. Just the few people that I talked to -- and I'm going to talk to more later today -- it's

an amazing diversity of opinion you get in farm communities.

I talked to everybody from a crop insurance salesman who raises cattle, who thinks that any dollar that has been taken out of the crop insurance program is potentially disastrous for the industry. I talked to a 30-year-old farmer who said, "I really wish we could get rid of all corn subsidies because it drives the land prices, and a young farmer can't get any land."

How do you deal with that diversity of opinion when you're trying to chart policy?

SECRETARY VILSACK: I think what people expect you to do is to be thoughtful in what you do and to be able to articulate a legitimate reason that is not in a political reason but a legitimate reason and policy reason for whatever decision you're making.

So, for example, when there were questions raised about the GIPSA rules, the pork producers earlier today, when I explained to them that, you know, 1980 we had 1.6 million pork producers and -- I forget -- 166,000 pork producers, I think it was, and today we only have 71,000 pork producers, they got that there was a legitimate concern because we had seen such a rapid decline in numbers. Actually, I think it was 1.6 million, or 1-point, but we'll get you the numbers. So I think they want you to be thoughtful.

And then, secondly, I think they want you to be cognizant and recognize the contribution they're making and appreciate the contribution you're making. I see -- you know, Craig Lang was, I think, constructive today. I see a greater understanding and acceptance by some of the production agriculture folks on the diversified smaller operations that want to get started. I think there is a growing understanding that they don't necessarily have to be conflicting; they can actually be complementary, which I think is a positive thing.

And I think, secondly -- I think if you show that you have a strategy for improving conditions, that you can articulate that there's a way forward that improves rather -- that adds rather than subtracts -- what we've seen in the rural economy is nothing but subtraction, and what we really need to see is addition and ultimately multiplication.

So, you know, when you talk about energy and you talk about Know Your Farmer, Know Your Food in local markets, when you talk about efforts to expand export markets, that all gets translated by producers as they're trying to make things better, and I might do it a little differently, I might have a slightly different emphasis, but you can't say that I'm not trying. And I think that's what people are interested in. They want to make sure that you're trying.

MR. BJERGA: And you talked about some policies and programs that add rather than subtract. People, I know, have asked you a lot of questions about the budget environment and the fact that there are going to be cuts made in the Federal budget, and that's an environment of subtraction, and that's a tension point here, is you're trying to create an environment of addition. Policy-wise in a fiscal environment, that seems to demand subtraction. When you talk about Congress' lack of enthusiasm, it seems to renew biofuel subsidies.

You know, you take a look at Blanche Lincoln's efforts on disaster aid, which did get

through Congress [inaudible], but it did actually get through, you know, you start talking about things like shifts in direct payments in different services' programs. I mean, how do you -- at a certain point, do you have to prepare farmers for the message that in the name of addition, something else is going to have to go?

SECRETARY VILSACK: I'm not willing to necessarily concede that point at this point, and the reason I'm not is because I'm not convinced that we have necessarily effectively used and efficiently used the dollars we have. And if you use dollars more effectively and efficiently, you can get more mileage out of them.

Let me give you a couple of examples, and these examples are primarily -- when we talk about the farm bill, I always think about it in the largest context of the rural development piece of this.

You're already giving blenders credit, and that money is not in the Federal budget today. So it's not as if you're asking for a direct appropriation, and so that you're taking money away from -- because of PAYGO, you've got to take money away from somebody. You don't have to do that. You've got credit. So you say are we using that credit cost effectively.

Right now it goes to the blenders. Maybe in order to expand this, this industry, we need more cars that use the fuel. So maybe you really ought to be directing that incentive or even a portion of that incentive towards more cars because, if you do that, you create greater demand, and if you create greater demand, then you've got need for supply and you've got opportunities to expand supply.

Maybe if you make it more convenient for people, they'll use more of it. So, if you have blender policy distribution systems that make it easier, then those dollars become more effective in terms of expanding the industry. That's an example.

MR. BJERGA: So you take your base -- this is kind of a different example because this is where I talk about baseline farm bill stuff when we're talking about blenders credit, but you're talking about an example where let's say you have a lenders credit that is X cents. Maybe in this example, it goes to Y cents, but that money that was from the reduction now go towards this other thing.

SECRETARY VILSACK: Right.

MR. BJERGA: And that lending is the same program.

SECRETARY VILSACK: And you buy more with it.

MR. BJERGA: Mm-hmm.

SECRETARY VILSACK: You buy something different, and you buy something more in the sense that you -- the blenders credit took the market so far, but without additional cars and without convenience to the customer, it's not going to take it any further.

MR. BJERGA: Sure.

SECRETARY VILSACK: Now you get to take it further, and if you add that to a massive effort to build biorefineries and to do the research to locate additional feedstocks, now you make it a nationwide industry, and you create political support, so you don't have to go through this same stuff every couple --

MR. BJERGA: Do you potentially see that, sort of a rethinking in that model applied toward something like direct payments?

SECRETARY VILSACK: I do, and I think you've heard that today. I think you heard it from Chairman Peterson, and I think you heard it from Craig Lang. I think you've seen it from the dairy producers. I think there is a real interest -- I think it's twofold. One, I think there is the belief that you could use those dollars more effectively to manage risks, and I think as farmers -- farming becomes more sophisticated, the whole notion of managing risk becomes more sophisticated, and they want that protection.

And I think it is something that takes some of the political sting out of the farm bill debate because you've got urban folks who don't quite understand that their citizens, their constituents actually benefit from this system in the sense of more affordable food, and so you give the rural folks the ability to say, "Look, we're not going to have this debate about what our farmers get checks -- who gets the check and how much they get and whether it's fair or not." What this is about is managing risk, and these poor guys have lots of risks that they can't -- that they have no control over and/or some country deciding on a whim to stop purchasing our stuff, you know, not because they have a better deal someplace or because they -- you know, there's something wrong with what we sell them. It's just that they decide for political purposes back home, they're not buying any more of our "fill in the blank."

So, you know, I'm convinced that with a lot of work that you can redirect resources, and we're doing the same thing in rural development with our regional concept. You just can't give a grant here and a grant here and a grant here and expect it somehow to magically help the -- move the Dow much. You have to think of this as a region, and you have to examine the region and figure out what is this strength of this region. Well, if it's natural resources, maybe you pour a lot of money into that but not so much money into community facilities because you may not need that. And if you prime the pump properly, the return on investment becomes greater, and that's what we're trying to integrate into our thinking is the return on investment. If you create more job opportunities, if you create better bottom lines for farmers, what does that do? Well, it creates wealth. It creates higher incomes. It also creates more --

MR. BJERGA: Does this require a top-to-bottom rethinking the farm policy, or are there some basic elements that are just no-brainers? You know they're going to continue because it works.

SECRETARY VILSACK: Well, I mean, I don't know how you would define "farm policy," so I'm not sure, but, you know, I think the export stuff is pretty basic. That's not going

to change. We're going to accept that we now have a strategy that's based on market conditions, and we have prioritizations and we have a thought process behind this and we have a strategy behind it. The early results appear that it's helping.

We have a strategy on biotechnology. I think there is one area where I do think there needs to be some rethinking in terms of being able to encourage and, at the same time, have it fit into the countryside.

As far as direct payments are concerned, you know, I guess it's a pretty significant change when you talk about curtailing or doing away with that and substituting it or risk management. The question will be whether or not there's sufficient funding in the system today to be able to buy enough risk management protection for all farmers --

MR. BJERGA: Right.

SECRETARY VILSACK: -- to actually have them buy into it.

MR. BJERGA: To go back, this is not my definition of "farm policy," but a narrow asset that people will be looking at is direct payment counter-cyclical LDP.

SECRETARY VILSACK: Well, I think Craig Lang hit the nail on the head. If they, we, us can figure out how rice and cotton were treated equitably with corn and soybeans, I think it's constructive that the corn and soybeans guys who receive a significant percentage of these direct payments are willing -- or I shouldn't say the corn and soybeans -- the farm bureau is willing to talk about a different system.

The Dairy Council or the Dairy Federation is interested in talking about a national program as opposed to this regional stuff that we've got now. I think it's a reflection of a recognition that not only is it perhaps not working -- because if you look at the trend lines, I mean, if you have half the dairy farmers you had 10 years ago and you have substantially fewer pork producers and you got substantially fewer cattle producers, you can say efficiency is responsible for some of that, but when does that trend end, and when do you want it to end? Do you want it just to continue to half and half and half and half until you eventually have like four farmers in the country? You don't want that.

So I think people are recognizing there has to be a better way to do this. There has to be a way to grow, to add and not subtract, to multiple and not divide. And I think we're on to something. I think we're on to something with rural development. I think Collin Peterson and others are onto something with risk management. I think we can say we've been sensitive to deficit reduction with the crop insurance, and we're sort of leading the charge here.

MR. BJERGA: So you're not talking about any sort of rural reductions in the farm program in that definition that is broader than the --

SECRETARY VILSACK: Again, I point out the fact that \$4 billion of savings on the crop insurance as a percentage of our budget, as a percentage of the money that we spend, if

everyone did that across the board in the Federal budget, my guess is we wouldn't have quite the challenge with the deficit that we have today, so, you know --

MR. BJERGA: But you take a look -- and I've seen numbers on this. You know, citizens don't sit around figuring out what percentage different programs are in the Federal budget. There's not that sense of push. People think that a lot of them are spent on agricultural subsidies than actually are.

SECRETARY VILSACK: Right.

MR. BJERGA: But not knowing that, when they say what could we take, what could we make cuts to, farm programs are often very high on the list.

SECRETARY VILSACK: Right. And that's true. So that raises two things. Number one, we got to educate people about what the percentage is because it is -- you're right. I mean, when you're telling them that 60 to 70 percent of our budget is nutrition and Forest Service and you have administrative expense and you've got food safety and you've got, you know, AMS and you've got, you know -- eventually you get down to just a small percentage of our budget going into these payments. And that the consumers benefit from those payments --

MR. BJERGA: Mm-hmm, right.

SECRETARY VILSACK: -- that's the message we have to keep going, so, A, it's not as much as you think it is, and, B, you know what, you get the benefit of it and cheaper food. And you add that to we've already given at the office, paid a substantial reduction and we're looking for others to -- you know, matches, and then you say, "And, frankly, folks, if you're really serious about deficit reductions, it comes down to the Big Three" --

MR. BJERGA: Right.

SECRETARY VILSACK: -- Social Security.

MR. BJERGA: And then on the flip side in talking about -- constantly, you'll hear in Farm Country, you know, I've heard people say the Obama administration -- not talking about you specifically, just talking about the administration as a whole, "They don't understand us. They don't understand what we go through." It seems like sort of an echo of what you were saying on the urban audiences don't understand what the farmer contributes. Where does that put you in the middle of all this?

SECRETARY VILSACK: It puts me as a person with the responsibility to make sure that folks are educated, both folks, both the rural folks are educated, that this is an administration that's put together a framework that's got more promise than any I've seen in a long time, and to the urban folks, hey, you know, why rural America is important to you, it's the source of your food, your water, your clean air, your fuel, and I would argue a good part of your value system, and you, Mr. Urban Dweller, can't afford to live without a strong rural America, and you have as much vested interested in that as the guy on the farm.

MR. BJERGA: And then what do you tell the guy on the farm?

SECRETARY VILSACK: I tell the guy on the farm that we are keeping faith with you. We are keeping -- first of all, we appreciate what you do, and we are keeping faith in you by having a strong safety net, by continuing to expand the export markets, by creating additional markets domestically, and by recognizing that part of the safety net, unfortunately or fortunately, however you look at it, is a good-paying job for you, your spouse, and we're trying to focus on a rural development strategy that actually creates those kinds of jobs. And we're also keeping faith, as you are, with our natural resources with a strong conservation and preservation ethic, and all of that is wrapped up into a package that's fiscally responsible because we recognize that if the debt goes unchecked, eventually inflation goes up, interest rates go up, and you, the farmer, could get hurt.

MR. BJERGA: How much change do you realistically think you can expect, given the budget environment, given the political winds, which are not blowing particularly favorably for the Democrats right now, given just intrinsic, entrenched hesitancy to change that?

SECRETARY VILSACK: Well, you know, we talk about the five pillars. Broadband, it's there. We got 300 projects, 3- to 400 projects. Those are going to have significant implications, and we're going to be able to have our regular programs with that. The winds, you know, it doesn't make any difference what the winds are. It doesn't make any difference what the politics are. That's going down the river.

I'm confident that we're going to see some progress on biofuels. I know from our own shop, we are very aggressively looking at how we can promote biorefineries, how we get a [inaudible] that makes sense. We did REAP awards today. We're going to continue to look for ways in which we can locate biorefineries everywhere in the country. I'm confident we're going to get some kind of blend rate increase. I'm confident that we're going to get that credit extended and we're going to get it extended for long enough in a way that actually grows this industry, so that to me is going down the road, and I don't think that's Democrat or Republican. It doesn't make a difference what happens in November.

The local food stuff, that's existing programs. That's not a new program. That's not some new thing we have to have a whole bunch of money for. We're just using our money wisely, and we're using the rural development tools, and people like it.

Mobile Slaughter Unit in New York got rave reviews when I went up to New York. The folks in New Hampshire are excited about Know Your Farmer, Know Your Food, so that's moving on down the road.

The conservation stuff, we're having these Great American Outdoors discussions. Hundreds of thousands of people are coming to these things. They're excited. They want full funding of the land and water conservation. I think they're going to get it.

I mean, the bill that Harry Reid put on the table was an energy bill. Before the recess,

what did it have? It's full funding for land and water conservation. So I think, you know, eventually we're going to have an energy bill. They can put it off, but eventually they'll do something, so I think there's momentum for that.

The ecosystem market is just something that I think will take some time, but I think there's also a long-term potential there. So, of the five pillars, four are moving down fairly aggressively, and one has got a little work to do. So, you know, I'm confident we can make and are already making significant change.

MR. BJERGA: And just following on that, what I'm really trying in this piece that I'm working on, to [inaudible] the phrase "farm bill" because for most readers, when they see the words "farm bill" --

SECRETARY VILSACK: It's all about the English.

MR. BJERGA: Right. And it gets all wonky. So could you expound just for a moment as far as how the budgetary environment and potential new programs fit in a context outside the farm bill, you know, what you get out of the energy bill, what you get out of supplemental or, you know, from [inaudible] funding, from different vehicles for these programs other than the zero-sum games in the farm bill baseline?

SECRETARY VILSACK: I'm not sure I understand. Well, let me put it this way.

MR. BJERGA: Not everything that USDA does is about farm bill.

SECRETARY VILSACK: Oh. Well, no.

MR. BJERGA: Not everything done for rural America is done through USDA.

SECRETARY VILSACK: That's true. That's true. And so let me see if I can at least deal with the second part first.

MR. BJERGA: Okay.

SECRETARY VILSACK: Our theory of the great regions concept that we are sort of piloting here is that we not only tear down the silos within USDA, so we have greater flexibility and use of resources to move our regional economic agenda, but that we will be the introducer, if you will, into other departments and help the region navigate the maze of other departments and at least educate other departments about this is an energy project you might be interested in looking at; this is really a neat thing that's being done in health care that HHS might be interested in, so that, I think, is a way in which we can reach outside of USDA.

In terms of not everything is done, the farm bill, I will say, well, that's accurate. Virtually, everything we do is and should be designed to add and multiply, not subtract and divide from rural America, whether it's food safety -- obviously, that's about all Americans, eating safely, but it's also about protecting markets, and that's agriculture.

Rural development, it's about job growth, but it's also about additional income opportunities for farm families.

Broadband is certainly about markets access for farmers, but it's also about improving rural schools. I mean, we're trying to set up a meeting with, as I told you earlier, Secretary Duncan and representatives of [inaudible] to try to talk about how we could use our resources within rural development, to help schools that are failing under No Child Left Behind, no longer fail. It maybe that it's not just the school. It may be the community that needs to be improved, and we can help that happen.

So there are a multitude -- there is an unlimited, an infinite number of ways in which we can play outside of USDA and that we can have the outside world play with USDA.

MR. BJERGA: Well, how then -- the name, "U.S. Department of Agriculture," does that become problematic at some point? Because it sounds almost, in some ways, like the "U.S. Department of Rural America," like you need to stick an "R" in there and change the "A."

SECRETARY VILSACK: Well, you could do that, but, you know, that just gets everybody all wound up about something that, at the end of the day, you know, how much energy do you have, do you want to spend it on --

MR. BJERGA: But you are talking about an evolution of what was the perceived mission of the USDA.

SECRETARY VILSACK: Well, that's because when USDA was founded in 1862, 90 percent of our country was rural, and most of the people farmed. Today, less than 1 percent of the people in this country farm, and only 16 percent of our population lives in a rural community. So the nature of our population has changed.

In the past, what's happened is there's been -- I hate to use this term, but I'm going to continue to use it because I think it works. There's been a slow subtraction and division in rural America. Well, we've now gotten to a point where we ought not continue that trend. It's not good for urban centers. It's not good for urban centers to continue to expand, to concrete over prime farm land. Why? Because we not only confront issues with our own food security, but we'll confront issues with the international food security. So the more prime farm land you concrete over, the less chance you have of actually being able to produce something. And there's traffic and congestion. People complain about how crowded the cities are. Well, maybe if we created more opportunities in the smaller communities, maybe we could take a little of the pressure off those urban and suburban areas, and they wouldn't have to expand as rapidly. Maybe they could grow in a rational and thoughtful way.

For me, it is that vision of a parent and a son or a daughter sitting at the coffee table and talking about the future of the child and saying, "If you want to see the world, great, I don't want to stop you, but you need to know you actually do have real opportunity here. You don't need to run away from it. You can come back to it. You can stay here. You can grow. You can have a

wonderful life here." And I have heard too many farm families in the past, too many folks living in rural communities and too many young people say, "I can't wait to get out of here." I want to reverse that conversation, and I think we can. I think we can. Otherwise, I wouldn't -- I wouldn't be as enthusiastic about this job as I am.

MR. BJERGA: This is usually the part where I always end the interviews. I think this is the third time I ended an interview with you with you telling that story.