Testimony of Roger Johnson
President, National Farmers Union

Expanding Our Food and Fiber Supply through
a Strong U.S. Farm Policy

United States Senate

Committee on Agriculture, Nutrition & Forestry

Wednesday, June 30, 2010

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SUBMITTED TESTIMONY FOR THE RECORD

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Introduction

Chairman Lincoln, Ranking Member Chambliss and members of the Senate Committee on Agriculture, Nutrition and Forestry, thank you for inviting me to speak to you today. It is a privilege to share a few reflections upon the 2008 Farm Bill that could be helpful in the development of our next food and farm policy. My name is Roger Johnson and I am president of the National Farmers Union (NFU). NFU is a national organization that has represented family farmers and ranchers and rural residents for more than 100 years.

Every member of this committee represents constituents who grow food, process food, and eat food. We all know that during this period of financial stress there will be pressure to reduce spending. Rural programs like the farm bill might be targeted even more so because rural people constitute a smaller percentage of our national population. The fact that the number of farmers has declined is not a reason to weaken the farm safety net. The population of our country – the people fed by American farmers – continues to grow. We must work together to provide sufficient federal investment in domestic food production. Fortunately, this committee is dedicated to listening to the opinions of family farmers and ranchers. NFU respects your expertise and hard work. As you continue to prioritize issues for the 2012 Farm Bill, we hope you consider the following observations on the needs of future farm programs.

The 2008 Farm Bill became law after years of debate; tens of thousands of hours of policy research and analysis; input from thousands of citizens and hundreds of interest groups; two presidential vetoes and two subsequent Congressional veto override votes. The legislation has helped to build a strong agricultural economy by funding crop insurance and permanent disaster relief programs, creating ambitious new programs to better serve farmers' and the general public's interests, continuing successful programs and making adjustments to make other programs more successful. The 2008 Farm Bill was an improvement over its predecessor, but like almost any other legislation, room for improvement remains.

Since the last farm bill was enacted, many farmers have endured some of the most difficult economic conditions in decades. The next farm bill must address the new realities we face: extreme volatility in market prices for commodities; extended periods of extraordinarily high energy costs; and the ongoing exodus of young people and job opportunities from our rural areas. While the challenges have become greater, our goals remain the same. We want to ensure that generations of farmers and ranchers can raise their families and live in vibrant rural communities while continuing to provide the safest, most abundant and most affordable food supply in the world.

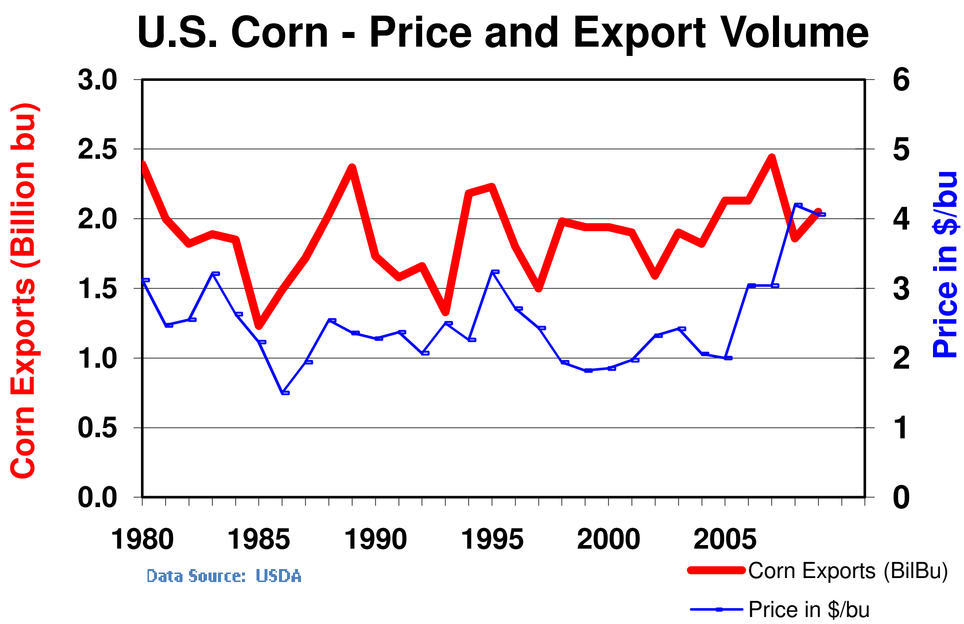
Why Domestic Farm Policy?

The need for domestic farm policy is rooted in the fact that farmers are price takers, not price makers. For decades, decision-makers in Washington have sought to find the right mix of policies that will address the ever-present problems of the agricultural economy, such as persistently low incomes, high volatility and excess capacity.

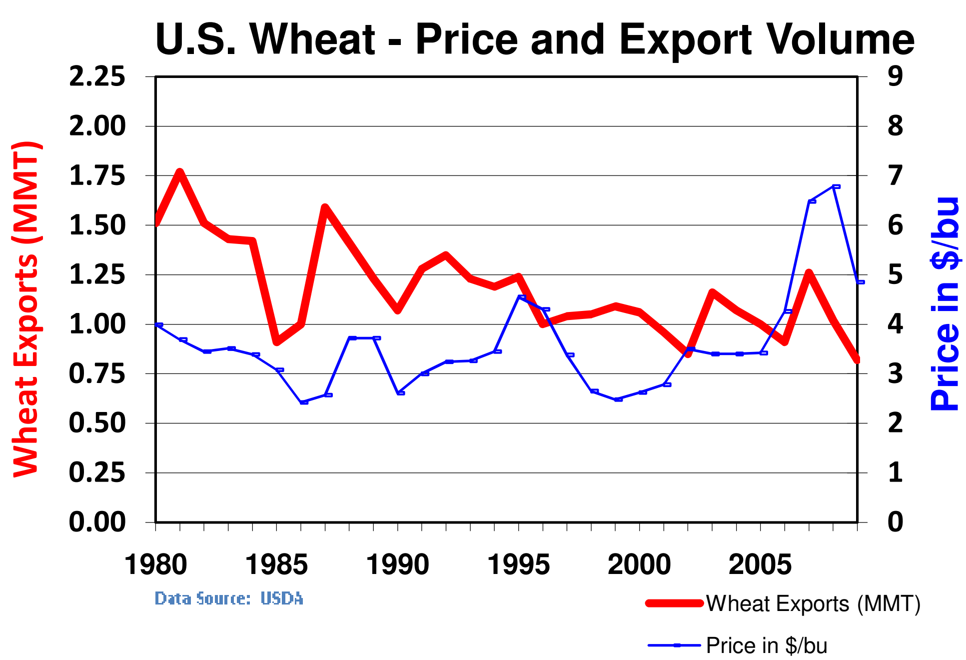
A national farm policy that relies on free, unregulated trade and the removal of the safety net will not result in improved prices or exports. While trade is important, agriculture has not been able to trade its way to prosperity and it is unlikely to ever happen. In order to provide nearly unlimited exports, American agriculture would need full access to markets in every developing nation, higher demand for exports to our existing trading partners and more competitive production to beat our export rivals. Even then, we must understand that such access to emerging economies must be carefully calibrated to avoid ruining their domestic agricultural markets. It is important to remember that most hungry people in developing countries are farmers themselves and they will need dependable markets to succeed. Our common national goal is to significantly reduce poverty and hunger around the world, so our trade policies must reflect the fact that a productive agriculture is essential to the growth and prosperity of any country.

There are times when opening relations with new markets is beneficial – the pending legislation to normalize trade with Cuba gives American farmers access to a readily available market. We must choose our trading partners carefully, for gaining unrestricted access to overseas markets can come at a high cost, as those same countries would demand the same access to our domestic marketplace at the expense of our strong food safety, environmental, labor and human rights standards.

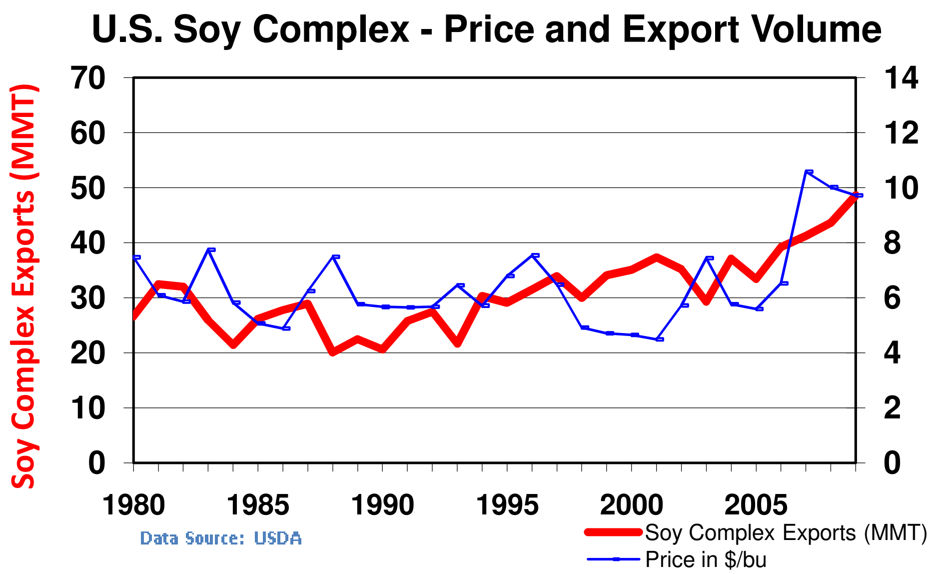
The following graphs help to illustrate how efforts to increase agricultural prices through exports have not brought long-term prosperity to farmers.



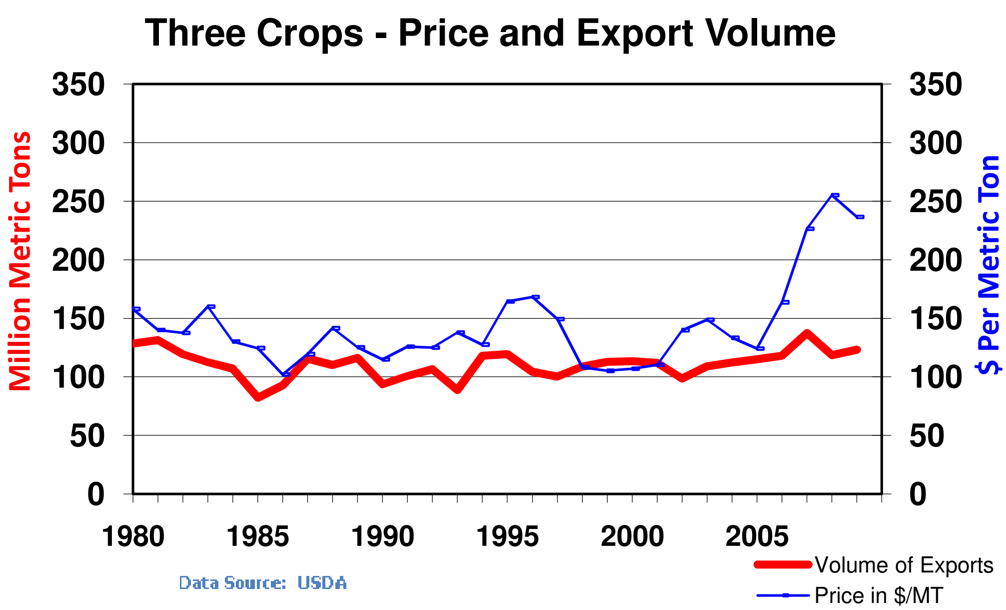
Since 1980, U.S. corn export volumes have remained relatively stable, averaging about 2 billion bushels annually. Corn prices had been relatively flat until the rapid ascent of 2007 and 2008, but volume did not increase in turn.



Wheat prices had hovered around $3.50 per bushel since 1980, but spiked a little earlier than corn in response to oil price volatility and speculation in 2007 and 2008. Export volume has trended slowly downward, averaging about 1.2 million metric tons a year during the study period.



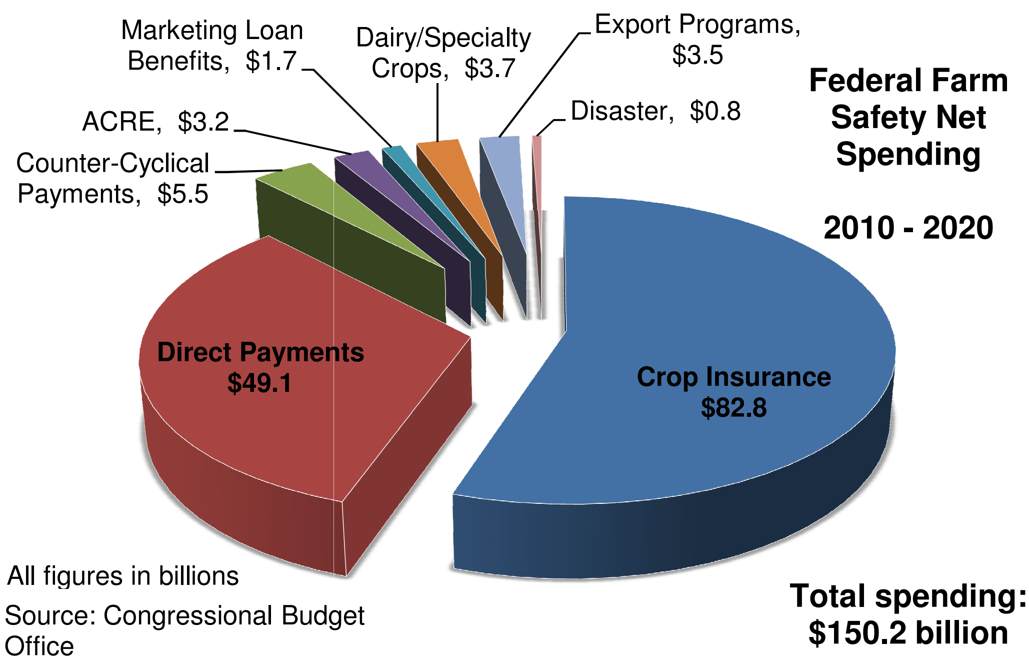
Soybean prices have averaged near $6 per bushel and spiked in the later parts of the last decade. Exports have grown steadily since 2005, and appear to have reached a peak in the last year.



Economic trends over the last 30 years show export-driven policies have failed to bring any meaningful or sustained increases in neither export volume nor commodity prices. Agricultural market prices for the three top U.S. export agricultural commodities – corn, soybeans and wheat – have been mostly flat. The exception to this trend is the spike in the late 2000s, which had more to do with market speculators and extremely volatile energy costs than trade policies. The sudden doubling in the value of agricultural exports for the three commodities has proven to be unsustainable. Even in 2009, the total value of U.S. exports dropped precipitously as the volume of exports rose slightly. Economists are predicting a steady decline in the value of our agricultural exports.

Thirty years of evidence shows export volumes will remain largely unchanged even with multiple efforts to increase export volumes through farm programs. Persistently low farm income, despite unfettered free trade, shows that American farmers cannot rely on export markets as the principal solution to the problems of agricultural economics. This is why we need a domestic safety net in the next farm bill.

Federal Farm Safety Net Spending



The 2008 Farm Bill and related agricultural programs comprise less than one-quarter of one percent of total federal expenditures. According to projections from the Congressional Budget Office for the years 2010 to 2020, farm bill programs will account for about $1.1 trillion of federal spending. However, only 14 percent of that money – $150.2 billion – will be spent on farm income stabilization efforts. Of this, about $49 billion will be spent on direct payments; $5.5 billion on countercyclical payments; $3.2 billion to the new Average Crop Revenue Election (ACRE) program; and $1.7 billion to marketing loan benefits.[1] Crop insurance programs were slated to receive $82.8 billion, although after the recent issuance of the 2011 Standard Reinsurance Agreement, this number will be smaller.[2]

In terms of disposable income, Americans spend the least amount of money on food in the world. In 2008, 9.6 cents of every dollar earned by the average American was used to pay for food[3].

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[1] Congressional Budget Office, March 2010 Projections for Fiscal Years 2010 – 2020.
[2] USDA Risk Management Agency, 2011 Standard Reinsurance Agreement. June 10, 2010.
[3] USDA Economic Research Service, Food and CPI Expenditures 1929 – 2008.

Annual spending on farm safety net programs, as enacted by the 2008 Farm Bill, amounts to roughly another one-tenth of one cent ($150.2 billion of federal farm program spending over the next ten years, divided by ten, then divided by total domestic disposable income). If the farm safety net was removed, many farmers would fall victim to the volatility that often befalls the agricultural marketplace and would be unable to produce food, thereby reducing supply. Even with the low percentages of spending that is used to buy food in our country, American farmers receive, on average, only about 19 cents of every dollar spent on food.[4] NFU has tracked this statistic carefully, and a June 2010 breakdown of "Food Prices and the Farmer's Share" is attached. American consumers get the most in the world out of their food dollars, even when essential safety net spending is included in the calculations.

Investments in the farm safety net programs will keep American family farmers in the business of providing consumers with affordable, domestically-produced, safe and nutritious food. NFU believes these programs are currently out of balance and need adjustments in the 2012 Farm Bill. The overriding purpose of the safety net should be to help farmers through tough times – periods of low prices or disastrous productive losses. Accordingly, we believe the Congress should focus its limited resources on improving those programs which help in such a fashion.

Average Crop Revenue Election (ACRE)

During the 2008 Farm Bill process, calls to reform the safety net came from many angles and interests. ACRE is the product of these efforts to try something new in farm policy. An optional, revenue-based program, it was designed to provide assistance only when farmers suffer an earnings loss and to reduce market fluctuations by basing payments upon market rather than target prices. Farmers who participate in the ACRE program remain eligible for reduced direct payments and marketing assistance loans.

As an experimental program, it was a challenge to educate farmers about the costs and benefits of enrolling in ACRE before the deadline of August 2009. NFU and our state organizations worked hard to offer information to producers about the program. About 136,000 farms elected to participate in ACRE, which represents about 33.15 million acres of productive land.[5] This is still a very small portion of the total land in production and the enrollment process must be simplified if similar sign up periods are to be more effective.

Despite its countercyclical payment structure and anti-market fluctuation measures, ACRE has some shortcomings. It is based on a state-by-state yield structure, so that irregularities could develop for states with minimal production of the enrolled crop, or for states with wide regional variations in weather and production method. This could be improved by basing the trigger on yield levels for counties rather than by state production levels. Another problem is that farmers must show a revenue loss to receive payments. This is often difficult to do for farmers and administrators alike – the next farm bill would do well to eliminate the revenue loss provision. If

[4] National Farmers Union, Food Prices and the Farmer's Share, June 2010.
[5] USDA Farm Service Agency

modifications were made to ACRE so that individual farm factors would serve as the trigger for payments, the program would operate more closely to what was intended in the 2008 Farm Bill.

Direct Payments

Of all the safety net programs included in the 2008 Farm Bill, direct payments are the least effective way to smooth the highs and lows of the agricultural marketplace. The federal dollars that go to direct payments would be better spent among the other programs, most of which have been under-funded. Federal crop insurance programs, for example, could be extended to specialty crop farmers who are not currently eligible for direct payments. With increased funding, target price supports could be strengthened to provide more assistance to commodity producers around the country. Direct payments offer important assistance to many farmers, but they are not available to all and provide just as much assistance in the good times as they do in the bad. They are difficult to justify to an increasingly skeptical public, and given the other, more-effective options available to policy-makers, direct payment funds would be better spent elsewhere.

Countercyclical Payments

In the 2008 Farm Bill, countercyclical payments were expanded to include pulse crops in addition to the commodity crops that have been part of the program since the 2002 Farm Bill. Target prices were adjusted for a few of the eligible crops, most notably for wheat beginning in 2010. A total payment cap for counter-cyclical payments was set at $65,000 per producer, which NFU appreciates because it allows more funds to be channeled to family farmers who most need the assistance.

The current farm bill provides about nine times more support to the safety net in direct payments than through countercyclical payments.[1] This is not an effective means to stabilize the agricultural marketplace. The next farm bill should focus on programs that help to boost prices and farm income in tough times, not all the time, and certainly not in good times.

The World Trade Organization (WTO) has placed limitations on government assistance for domestic agricultural production and we know policymakers must consider the implications of our own farm policy on trade. However, changes in the next round of WTO negotiations will be a prime opportunity to adjust the direction of American farm policy toward a system of subsidies coupled to price supports.

NFU urges the committee to place more emphasis on countercyclical payments by raising target prices and expanding eligible crops. Increased assistance ought to be provided when commodity prices fall well-below the cost of production, not when prices are higher. When used in combination with effective payment limitations, countercyclical payments are cost-effective while helping farmers in tough times.

Disaster Program

NFU has long been among the leading proponents of a permanent disaster program. The unpredictability and inefficiencies associated with ad hoc disaster programs led to the inclusion of the Supplemental Revenue Assistance Program (SURE) in the 2008 Farm Bill. SURE should make it possible for farmers and ranchers to recover quickly from the devastating setbacks weather can have on crops and livestock without waiting for piecemeal disaster assistance.

SURE was a hard-won victory for family farmers and ranchers and it ought to be properly utilized. It is not uncommon to hear from farmers who have had claims pending since the beginning of the program and are still awaiting relief. As of March 2010, $37 million in SURE funding has been distributed, but there is much more assistance yet to be provided.[6] NFU urges Congress to fully fund the program and adopt partial advance payments so assistance can be quickly provided in times of need.

In the next Farm Bill, policymakers need to make sure that the work that was done with the SURE program in 2008 is continued. The distribution of disaster aid must remain linked to crop insurance participation, which should encourage farmers who have not traditionally taken out crop insurance policies to consider doing so. NFU members welcome more suggestions and discussion about how to boost the efficiency of the program but, at the same time, we challenge this committee to make sure that any improvements in SURE do not come at the expense of program delivery. The county Farm Service Agency (FSA) staff who service these programs are already pushed to the limits of their resources. Any unnecessary difficulties to their jobs should be avoided. A consistent, predictable and stable back-up plan for farmers struck by hard luck is the most important aspect of having a permanent disaster aid program. Any efforts to improve upon it should not interrupt the positive results SURE provides.

Crop Insurance

Crop insurance must remain a cornerstone of farm policy. While we understand the reasoning behind the recent budget cuts to crop insurance, we remain deeply concerned that continued reductions in spending for this vital program will cripple crop insurers to the point that some companies may choose to no longer carry it in some areas of the country. In order to be a truly national program, crop insurance needs to be functional in all parts of the country, including traditionally-underserved areas and crops for which insurance has been expensive in the past. As other parts of the farm safety net shrink, policymakers should be increasing the availability of crop insurance coverage to more crops and to more parts of the country.

When the future of crop insurance is discussed, it is important to consider the use of the actual production history (APH). The APH should be the basis of all risk management programs. For situations in which the APH is not available, the qualified yield for a farm should not be set at a lower level than that of county FSA calculations. Establishing APH yield floors would also protect farmers in the event of successive crop disasters. These measures will help to ensure the productive potential of a farm is appropriately represented in risk management contracts.

[6] USDA Risk Management Agency, The New Producer Safety Net: Disaster Programs and ACRE.

The administration's stated goal to make substantial increases in child nutrition funding is a move which NFU has long supported. In 1960, NFU called for the expansion of "workable methods needed to close the gap between what persons can afford to pay for food … and what they need to maintain an adequate standard of nutrition." We need healthy, well-educated consumers who know more about the origins of their food. To make this possible, funds should not come from crop insurance programs or other parts of the farm safety net, as some have suggested. Child nutrition is estimated to comprise 80 percent of the $1.1 trillion spent on farm bill programs between 2011 and 2020, while crop insurance makes up less than seven percent of the total expenditures.[7] Investment in a stable food supply should not come at the expense of healthier diets for young people. Both of these causes should be advanced in tandem.

Supply Management

Americans have been fortunate to have an agriculture industry that routinely produces more food than is consumed domestically. Agriculture remains one of the few industries in which the United States maintains a consistent trade surplus.[8] We have an abundant supply of food, but if we can manage that supply to be produced at the most appropriate times, our agricultural marketplace would be less volatile and more amenable to family farmers.

Changes in policy in the 1985 and 1996 Farm Bills eliminated floor prices, supply management tools, price stabilization and reserves from the safety net. By 2008, very few functioning farm programs that address the issues of supply management remain and the agricultural economy has suffered as a result. We allow farm policies, such as marketing assistance programs and commodity promotion boards, that work to affect the demand side of the agricultural marketplace, but have done less and less to adjust the supply side – the portion of the market farmers actually control. Because this hearing is an opportunity for all aspects of the 2008 Farm Bill to be reviewed, I urge the committee to consider adding meaningful supply management functions in the next national farm policy.

Without even a rudimentary system of supply management, our existing farm programs could be overwhelmed by a bumper crop. High production and low prices could result in huge countercyclical payments or revenue insurance payouts. In a time when government expenditures are highly scrutinized, a bumper crop of subsidies could spell disaster for the public's perception of farm policy.

Grain reserves should be considered as part of a supply management system that would serve our national strategic interests. Federal policy places high value on energy; we keep enough oil in strategic petroleum reserves that would fuel our country without imports for 75 days.[9] Food is

[7] Congressional Budget Office, March 2010 Projections for Fiscal Years 2010 – 2020.
[8] USDA Economic Research Service, Total Value of U.S. Agricultural Trade and Trade Balance, Monthly. Updated June 10, 2010.
[9] U.S. Department of Energy, Office of Strategic Petroleum Reserves, "Quick Facts and Frequently Asked Questions."

even more important, and an American food reserve system would help ensure our food security as well as smooth the peaks and valleys of agricultural prices.

In the 2010 NFU policy, our members called for the establishment of "a farmer-owned strategic national reserve for all storable commodities to ensure consumer food security, livestock feed supplies and national renewable energy needs in times of short supply." To create a functional program, a portion of the national commodity production should be held off the market in times of adequate supply. The reserve would be opened to the market when ending stock ratios reach a predetermined trigger level and subsequently would be sold at a value reasonably greater than current market price. Storage rates for these reserve commodities should be paid to the farmer in advance and set at the prevailing commercial storage rate. Additionally, supply management methods should not be unfairly burdensome for new farmers to enter the industry, but should balance any swings that may cause unacceptable price volatility.

There are examples of commodities that are using or would like to use supply management techniques. The sugar program, as it was continued in the 2008 Farm Bill, has been successful in leveling the playing field for sugar producers and moderating price fluctuations. It has provisions that manage supply and accommodate world trade concerns, yet the program prevents foreign competitors from undercutting domestic supply. It is also worth noting that the vast majority of dairy industry proposals for the 2012 Farm Bill will include elements of supply management. More agriculturists are realizing the potential of supply management techniques to better stabilize farm incomes and you are likely to hear more about this idea in coming years.

Proposals for a national reserve, to be used as part of a supply management system, deserve serious consideration in the 2012 Farm Bill. When used in combination with other supply management techniques and target loan rates, reserves can bring stability to the market and prosperity to the countryside.

Conclusion

On behalf of the members of NFU, I urge the committee to keep in mind the aforementioned concerns as you continue your work to review the 2008 Farm Bill and begin to draw up the concepts for the next bill. You will hear from thousands of farmers and ranchers across the country in the next two years and I thank you for your ongoing attention. NFU looks forward to continuing this dialogue throughout the legislative process to write a bill that allows family farmers and ranchers to find prosperity in an ever-changing rural economy.

Farmer's Share of Retail Food Dollar

Did you know that farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home?

According to USDA, off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

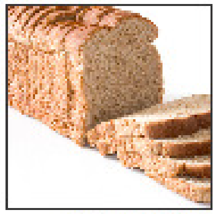
Bacon
1 Pound

Retail: $3.89
Farmer: $0.63

Top Sirloin Steak
1 Pound

Retail: $4.99
Farmer: $0.97

Bread
1 Pound



Retail: $3.79
Farmer: $0.09

Fresh Carrots
2 Pounds

Retail: $1.98
Farmer: $0.82

Beer
6-Pack Cans

Retail: $5.49
Farmer: $0.10

Cereal
18 Ounce Box

Retail: $5.09
Farmer: $0.07

Cheddar Cheese
1 Pound

Retail: $3.29
Farmer: $1.35

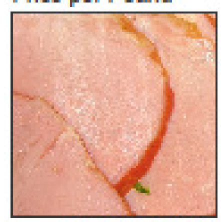
Eggs
1 Dozen

Retail: $2.39
Farmer: $0.63

Flour
5 Pounds

Retail: $2.59
Farmer: $0.46

Boneless Ham
Price per Pound



Retail: $1.99
Farmer: $0.63

Lettuce
1 Head (2 Pounds)

Retail: $1.99
Farmer: $0.53

Milk
1 Gallon, Fat Free

Retail: $4.39
Farmer: $1.26

Potato Chips
Lay's Classic, 13.5oz

Retail: $4.39
Farmer: $0.10

Fresh Potatoes
Russet, 10 Pounds

Retail: $2.49
Farmer: $0.40

Soda
Two Liter Bottle

Retail: $1.09
Farmer: $0.06

Farmer's share derived from USDA, NASS "Agricultural Prices," 2010.
Retail based on Safeway (SE) brand except where noted.

Farmers Union
www.NFU.org

June 1, 2010