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U.S. SENATE SPECIAL COMMITTEE ON AGING

HARVEST OVER THE HORIZON: THE CHALLENGE OF AGING IN AGRICULTURE

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Mr. Chairman and Committee members, thank you very much for the opportunity to discuss the issues related to older farmers and ranchers in American agriculture. Today, I will provide a brief overview of the demographic and financial profile of U.S. farmers and identify some of the challenges that an aging farm workforce presents. I will then discuss the programs the Department of Agriculture operates and the Administration's 2007 Farm Bill proposals that address these challenges.

Generally Prosperous Times for U.S. Agriculture

Before addressing specific issues related to age, there are several developments in agriculture that define the context in which age issues will play out over the next several years. A key factor is the strengthening of the farm economy. After a slowdown in the late 1990s and early 2000s following the sharp devaluation of Asian currencies and the global slowdown in economic growth, U.S. agriculture has enjoyed an unprecedented period of economic prosperity. Aggregate net cash farm income reached a record high $81.5 billion in 2004, followed by a near record $81.2 billion in 2005. Income declined to an estimated $67 billion in 2006, as government payments declined and production expenses, especially energy-related costs, increased. The significance of these numbers can be appreciated by comparing them to $64.6 billion which is the 10-year average of net cash farm income from 1997 to 2006. Another above average income year is forecast for 2007.

Key factors contributing to the robust farm economy include strong global economic growth and the rising use of agricultural products in biofuels. Strong foreign income growth is

expected to help boost U.S. agricultural exports to a record high $77.5 billion in fiscal year (FY) 2007, up 13 percent from FY 2006. The $8.8 billion annual increase would be the second highest ever. Along with strong export demand, the demand for biofuels is expected to drive corn prices to record-high levels for the 2007 crop. Ethanol production during the 2007/08 corn marketing year is expected to increase 58 percent above the 2006/07 level. Of total 2007 corn production, 27 percent is expected to be used in ethanol production, up from 20 percent of the 2006 production. Continued growth in biofuel production is expected to keep crop markets strong.

As income has improved, the wealth of U.S. farmers has also grown. At the start of 2007, U.S. farm net worth (assets minus debts) totaled $1.69 trillion, up from $1.18 trillion at the start of 2004. Another strong increase is expected in 2007. The major contributors to this growth have been modest increases in farm debt and substantial increases in farm real estate values. From 2004 to 2006 the average value of farm real estate has increased from $1,360 per acre to $1,900 per acre, a 40-percent increase in only 3 years.

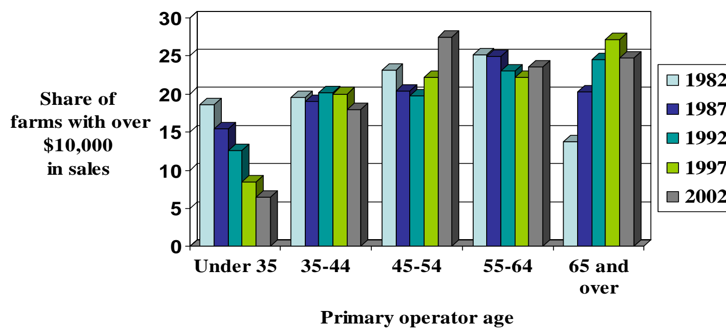
Aging Farmers

Now let's examine the issue of the age of U.S. farmers and their related economic well being. The average age of the U.S. population has been steadily rising for a long time. It increased especially rapidly over the past two decades as a result of the aging of the baby-boom generation. The average age of primary farm operators reflects this general population trend and also continues to rise, increasing by nearly 5 years from 50.5 in 1982 to 55.3 in 2002, the latest Census of Agriculture data. The Current Population Survey ranks all occupations by age for 2006, with farmers and ranchers averaging 55.9 years, the 6th highest of over 400 different occupations identified.

For nearly one-fourth of all farms with over $10,000 in annual sales, the primary operator was over 65 years of age and older in 2002 (Figure 1). In contrast, the Bureau of Labor Statistics estimates that only 8 percent of self-employed persons in nonagricultural industries were in that age category. The rise in the average age of primary farm operators reflects both a decline in the number of young farmers and a rise in the number of older farmers. From 1982 to 2002, the

number of primary operators under 35 years of age declined while the number of farmers 65 years of age and older increased. Farms with over $10,000 in annual sales and whose primary operator was under 35 years of age accounted for less than 7 percent of all farms in 2002 as compared to 19 percent in 1982. Meanwhile, the share of farms with over $10,000 in sales whose primary operator was over 65 increased from 14 to 25 percent.

Figure 1. Farm Primary Operators by Age



Not surprisingly, older farmers are, in general, better off financially than younger farmers because they have had the time to accumulate assets and repay debts. In 2005, farm operators 65 years of age and older had average per farm assets of $775,687 compared to only $23,466 in farm liabilities; or a debt-to-asset ratio of 3 percent. Farm real estate averaged $660,681 on those farms, accounting for 85 percent of total assets. Alternatively, farm operators under 35 years of age had average assets of $480,261 per farm and $86,757 in farm liabilities; or a debt-to-asset ratio of 18 percent. For the farm sector as a whole, average per farm assets were $784,392 and farm liabilities were $62,127, for a debt-to-asset ratio of about 8 percent.

While farm operators 65 years of age and older may have a better balance sheet, they earn less income from farming compared with farmers less than 65 years of age. In 2005, the average net farm income for farms operated by a person 65 years of age and older was $18,179, compared with $28,361 for farms operated by someone under 35 years of age. For the farm sector as a whole, average net farm income per farm was $27,137 in 2005. Similar to other segments of society, these data show an older population of farmers who control a considerable

amount of assets but earn less income from farming compared with younger farmers who have more debt but earn on average more income from farming.

Farm Succession Issues

The continuing decline in the number of farmers 34 years of age and younger has raised concerns that an insufficient pool of new entrants will be available to replace a large and growing pool of retiring farmers. There is no evidence, however, that a shortage of farm operators and farm workers has caused or will cause reduced production and higher prices of U.S. farm commodities. A USDA Economic Research Service study released in 2006 on farm exits (farms going out of business) indicated that while the total number of U.S. farms has declined very little in the 5 years between each Census of Agriculture, about 9 to 10 percent of farms go out of business each year. This suggests the apparent stability in the number of U.S. farms masks a rather dramatic turnover. Turnover rates are highest for smaller farms, but even for farms with sales of $250,000 or more, 6 to 7 percent go out of business each year. Thus, U.S. agriculture has been facing a substantial turnover for many years, and as these farms have been sold, new farm businesses have taken their place or existing farms have gradually increased in size.

There is also evidence that there are a substantial number of young farmers present on farms, though not as the primary operator. Data indicate that many commercial-sized farms with older operators also have younger operators involved in the farming operation. These secondary operators in many cases represent future primary operators. A high percentage of these farms are operated as partnerships and as family corporations. The 2002 Census of Agriculture indicated there were 194,000 farms, 9 percent of all farms, which have multiple operators with operators across different generations. In addition, the Current Population Survey identifies “farm, ranch, and other agricultural managers,” who are paid to supervise and manage farm operations, as having an average age of 48.3 in 2006, 7.6 years less than the average age of farm operators.

Finally, the rising average age of primary operators may also reflect technology change that has enabled older farmers to more readily meet the physical demands of farm labor. Technology has reduced the time needed for field operations and has supplanted manual labor

with mechanization, allowing farm size to increase over time and operators to spend more time on other farm management tasks. Improving health, reflected in longer lives, also enables the workforce in general to work to a much older age.

While there appears to be no impending slowdown in farm production resulting from the advancing age of primary operators, there are concerns about how upcoming intergenerational transfers may affect the future structure of agriculture. Older farmers hold a large share of farm assets. Primary operators 65 years of age and older owned over one-fourth of farm assets in 2004. Collectively, landowners 65 years of age and older owned over one-third of the total acres of land in farms. Ultimately, this pool of assets will either be sold or passed on to heirs. To the extent these assets are sold or leased to existing operators, this transfer raises concerns about consolidation and its effects on the structure of agriculture, local economies, and rural landscapes. Middle-sized family farms with annual sales of between $50,000 and $500,000 fell from 526,000 farms in 1982 to 381,000 in 2002. Meanwhile the number of large farms with over $500,000 in sales increased form 28,000 to 71,000 farms. This decline in middle-sized farms is one factor behind policies to encourage entry into agriculture or assist in the intergenerational transfer of farm assets. The concern about structure must be balanced against the economic effects of technology advancement and economies of scale, which enable agricultural demand to be met by larger, more efficient, and fewer farms.

Another factor likely to affect the transfer of farm assets is the cost of farm production assets. In 2002, the value of land and buildings averaged $710,000 for U.S. farms that were principally engaged in agriculture. For farms where the principal operator was under 35 years of age, the value of land and buildings averaged $595,000. Farmland values have been steadily increasing for many years, but jumped 15 percent in 2005 after a 21 percent increase in 2004, adding to the cost of entering farming. Thus, these figures indicate that access to capital for the purchase of land, buildings, and equipment may be a significant hurdle for many young farmers. However, renting land is a key option for young farmers, as nearly half of land in production is now rented. While the average value of farm real estate increased 57 percent between 2002 and 2006, the average rental rate on crop land only rose 10 percent.

USDA programs and activities

Uncertainty over farm succession and future farm structure have motivated programs to encourage individuals entering the workforce to take up careers as farmers and ranchers and help them succeed. The Agricultural Credit Improvement Act of 1992 was the first law that required USDA to provide special assistance to beginning farmers and ranchers. The law required the Secretary to establish: (1) beginning farmer loan programs; (2) Federal-State Beginning Farmer Partnerships for the purpose of providing joint financing to beginning farmers and ranchers; and (3) an Advisory Committee on Beginning Farmers and Ranchers. The Act also required that loan funds be targeted to beginning farmers and ranchers.

USDA implemented beginning farmer and rancher loan programs in FY 1994. From then through May 2007, the Farm Service Agency (FSA) has made more than 106,000 loans to beginning farmers and ranchers, totaling $9.5 billion. In FY 2006, 34 percent of all FSA direct and guaranteed loans have gone to beginning farmers and ranchers. FSA has also created Federal-State Partnerships by signing Memorandums of Understanding with 20 State beginning farmer programs, agreeing to provide joint financing to beginning farmers and ranchers. The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) authorized the Secretary to establish a Beginning Farmer and Rancher Land Contract Guarantee Pilot Program in not fewer than five states during FYs 2003-2007. The program, implemented in September 2003, provides FSA guarantees on loans made by private sellers of a farm or ranch on a contract land sales basis to qualified beginning farmers and ranchers. While available in nine states, only two guaranteed loans have been made since implementation.

While not a USDA agency, the Farm Credit System (FCS) also makes loans to young farmers and ranchers (35 years old and younger) and beginning farmers and ranchers (operating for not more than 10 years). For example, in 2006, FCS institutions made 58,000 loans with a total loan dollar value of $9.3 billion to beginning farmers and ranchers. This lending represented 21 percent of the total number of new loans and 18 percent of total dollar volume of new loans made by FCS institutions in 2006. As of December 31, 2006, loans to beginning

farmers and ranchers accounted for almost 24 percent of the total number of loans outstanding and 19 percent or $25.4 billion of the dollar value of loans outstanding in the FCS.

USDA established the Advisory Committee on Beginning Farmers and Ranchers (Advisory Committee) in 1998. The Advisory Committee provides advice to the Secretary on methods of maximizing opportunities for beginning farmers and ranchers. Members include representatives of FSA; the Cooperative State Research, Education, and Extension Service (CSREES); State beginning farmer programs; commercial lenders; private nonprofit organizations with active beginning farmer and rancher programs; community colleges or other educational institutions with demonstrated experience in training beginning farmers and ranchers; other entities or persons providing lending or technical assistance to beginning farmers and ranchers; and farmers and ranchers.

The 2002 Farm Bill built on the Agricultural Credit Improvement Act of 1992 by authorizing the Secretary to provide higher payments to beginning farmers and ranchers in some of USDA's conservation programs. It also authorized the Secretary to provide incentives to beginning farmers and ranchers to participate in conservation programs to foster new farming and ranching opportunities and enhance environmental stewardship over the long term. Since FY 2003 through April 2007, the Natural Resources Conservation Service (NRCS) has approved $292 million in Environmental Quality Incentives Program (EQIP) contracts for beginning farmers and ranchers and $134 million for limited resource farmers. In FY 2005 and 2006, NRCS invested $6.5 million and $10 million, respectively, under EQIP for a special initiative to assist beginning and limited resource farmers and ranchers to implement conservation practices on their land. NRCS has also encouraged their State offices to give extra points in their Farm and Ranch Lands Protection Program ranking criteria for farms with succession plans.

The 2002 Farm Bill also authorized the Secretary to establish a Beginning Farmer and Rancher Development Program to provide training, education, outreach, and technical assistance initiatives for beginning farmers and ranchers. No funds have been allocated to implement this program. However, CSREES provides grants to organizations that assist beginning farmers and ranchers through the (1) Outreach and Assistance for Socially Disadvantaged Farmers and

Ranchers Program (Section 2501) and (2) National Research Initiative Grants Program (Agricultural Prosperity for Small and Medium-Sized Farms). The 2002 Farm Bill authorized $25 million in annual appropriations for FY 2002 through 2007.

New entrants into agriculture can participate in price and income support programs and crop insurance on the same terms as other producers. In addition, the Risk Management Agency (RMA) provides partnerships to organizations to assist beginning farmers and ranchers in risk management. Following the recommendations of the Advisory Committee, RMA has targeted partnership applicants that were sensitive to the needs of beginning farmers and ranchers and those that planned to partner with organizations that assist beginning farmers and ranchers. Seven organizations assisting beginning farmers and ranchers received partnerships in the first solicitation in 2003. Except for 2007, RMA has continued to include beginning farmer and rancher language in their annual partnership request for applications, including the Community Outreach and Assistance Partnership Program Announcement published March 1, 2006. On June 16, 2006, RMA also announced a rural initiative for new farmers, making available $500,000 to fund educational programs to teach refugees and other low-income individuals who produce specialty crops about risk management and good business practices.

In 1999, USDA implemented Departmental Regulation (DR) 9700-1, "Small Farms Policy". The Advisory Committee recommended USDA develop and implement a mission focus to heighten awareness and coordinate beginning farmer and rancher opportunities, similar to that established in DR 9700-1 for small farms. On August 3, 2006, DR 9700-1 was amended to become a "Small Farms and Beginning Farmers and Ranchers Policy." This has resulted in a Small Farms and Beginning Farmers and Ranchers Council, which I as Deputy Secretary, Chair. DR 9700-1 also requires beginning farmers and ranchers policy to be reflected in all USDA mission area and agency statements, strategic plans, performance plans, and performance goals.

2007 Farm Bill

The Administration is recommending a broad package of proposed changes to several Farm Bill titles to provide additional support to beginning farmers and ranchers.

As part of the commodity title, the Administration is recommending to provide beginning farmers a 20-percent increase in their direct payment rate, adding $250 million to producer income over 10 years. After the initial five years, these producers would no longer be eligible for the higher direct payment rate. This change would better prepare beginning farmers to face the initial financial burdens associated with entering production agriculture.

Under the conservation title, we are recommending that 10 percent of farm bill conservation financial assistance be reserved for beginning farmers as well as socially disadvantaged producers under a new Conservation Access Initiative. This new initiative would maintain the higher rates of Federal cost-share, but also direct a greater technical assistance percentage than the traditional program to better address the needs of socially disadvantaged agricultural producers. Funds set-aside under the Conservation Access Initiative within the Conservation Innovation Grants would be used for technology transfer, farmer-to-farmer workshops, and demonstrations of conservation success to further adoption of innovative conservation practices.

As part of the credit title, we are recommending to enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to help ensure the success of the next generation of production agriculture by cutting the interest rate in half to two percent; deferring the initial payment for one year; eliminating the $250,000 cap on the value of property that may be acquired by a beginning farmer wishing to obtain a down payment loan and replacing it with a maximum down payment loan amount of $200,000; decreasing the minimum beginning farmer contribution from 10 percent of the property purchase price to 5 percent; and adding socially disadvantaged (SDA) farmers and ranchers as eligible applicants for this program

We are also recommending a doubling of the statutory target for the percentage of USDA direct operating loans (OL) that will be prioritized to assist beginning and SDA farmers from 35 percent to 70 percent; prioritizing 100 percent rather than 70 percent of direct farm ownership (FO) loans to first meet the needs of beginning and SDA farmers; and overhauling the federal repooling procedures to ensure that these targets are reserved only for beginning and SDA farmers to the maximum extent possible.

The Administration also recommends increasing the existing statutory limits of $200,000 for direct farm ownership loans and $200,000 for direct operating loans to a maximum of $500,000 indebtedness for any combination of the two loan types. The higher, combined limit will allow a better matching of loan type, amount, and purpose to an individual applicant's credit needs. It will also improve access to capital, and therefore the competitiveness, of beginning farmers and other FSA loan applicants.

Conclusion

Market incentives augmented by Federal and State programs will determine the future supply of farmers and ranchers. If farm production provides a sufficient return, capital investment and people will enter production agriculture. Low rates of return will discourage investment and cause farm failures. Competition will drive successful producers to adopt technology and achieve efficient operations, while inefficient producers will exit agriculture. The operation of these market forces is critically important for growth, productivity gains, and ensuring affordable food for Americans.

Nevertheless, there are a number of issues concerning the adequacy of the future workforce needed to farm the nation's agricultural lands. These issues include the potential divergence between the level of younger, new farm entrants into production agriculture and the exit of older retiring farmers; the potential barrier to entry for new farmers created by rising farmland values and their effect on the capital costs of acquiring an efficient farm operation; the rising complexity of farm production caused by changing markets, globalization, new technologies, economies of scale, environmental concerns, and other factors.

Uncertainty over the outcome of these issues and the structural changes that have accompanied the growth in agriculture have led to programs and policies that aid new farm formation or the successful succession of farms from one generation to the next. The 2007 Farm Bill provides an excellent opportunity to improve the effectiveness of these efforts.

That completes my statement, Mr. Chairman.