



# Ag Decision Maker



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### Farm family financial situation

by Paul Lasley, extension sociologist, 515-294-0937, plasley@iastate.edu

The Iowa Farm and Rural Life Poll provides insight into farmers perceptions on a variety of topics relevant to their communities. The information is based on a random survey of over 2,200 farm operators, of which 1,700 useable surveys were returned.

#### Retirement

An important issue for farm families is their current financial situation and its impact on

long-term financial security. Table 1 shows that the expected retirement age for Iowa farm operators has increased from 65 in 1984 to 69 in 2003. When asked whether they were setting aside money for retirement, about four-fifths (79 percent) said yes. For those who said they were setting aside money for retirement, just over one-half indicated it would be just adequate, 17 percent said it would be more than adequate, and nearly one-third said it would not be adequate (Table 2).

#### Savings

Of the farmers in the sample, 71 percent reported they have a savings account. Of those with a savings account, just over one-half (54 percent) regularly contribute to the account. The average proportion of total family income contributed to a savings account was 10 percent. Of those having a savings account about one-third of farm families had

a balance that increased over the last year, one-third remained the same, and one-third decreased (Table 3). Three percent of farm families had balances that increased substantially whereas nine percent had balances that decreased substantially.

#### Credit card use

Average number of credit cards held by this sample of Iowa farmers was just over three. Among farmers with credit cards 89 percent stated they pay off their credit card balances nearly every month whereas the remaining 11 percent do not. In response to the types of purchases for which they used their credit

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#### Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

**Farmland Value Survey (ISU) – C2-70 (4 pages)**

**Farmland Value Survey (Realtors Land Institute) – C2-75 (2 pages)**

Please add these files to your handbook and remove the out-of-date material.

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**Table 1. Iowa farmers' expected retirement age**

	Average (years)
Expected retirement age reported in spring 2003	69
Expected retirement age reported in spring 1984	65

**Table 2. Farmers' opinions on the adequacy of their retirement savings among those farmers setting aside money.**

Not adequate	30%
Just adequate	53%
More than adequate	17%

cards (Table 4), the top two uses were vacation/travel and gasoline with 54 and 42 percent respectively always or usually using their credit cards for those types of purchases. Clothing purchases was next with 25 percent, followed by eating out/entertainment (17 percent), appliances and furniture (13 percent), and groceries (9 percent).

**Farming financial conditions**

Farmers were asked about the current financial well-being of farmers, agribusiness firms and financial institutions in their area as well as their own farm (Table 5). The same question also had been asked in 1996 and 1986. Several patterns emerge. Of the three points in time represented by the data the most difficult period for agriculture was in the mid 1980s. Financial well-being improved in the mid 1990s when a greater number of respondents answered that financial well-being was not a problem. For 2003 there again was a considerable decline in the percentage of farmers responding financial well-being was not a problem. Although in 2003 there was an increase over 1996 in the percentage responding it was a problem, the percentage was substantially smaller than in 1986. Another pattern in the data is that the responding farmers perceived the greatest impact of poor economic conditions was felt by their farmer neighbors, somewhat less by agribusinesses, and the least impact was on the financial institutions. Responding farmers also tended to assert their own situation was

**Table 3. Savings balance trends in 2003 among farmers with a savings account**

Decreased substantially	9%
Decreased	23%
Remained the same	33%
Increased	32%
Increased substantially	3%

**Table 4. Credit card usage patterns among Iowa farmers with credit cards**

	Percent indicating use of credit cards
Vacation/travel	54%
Gasoline	42%
Clothing	25%
Eating out/entertainment	17%
Appliances and furniture	13%
Groceries	9%

better than other farmers and the agribusiness firms. In the spring of 2003, just under one-third of the farmers felt they had a moderate or serious financial problem whereas about twice as many (61 percent) believed their neighbors had a moderate or serious problem. Just under one-half believed that agribusiness firms in their area had a moderate or serious problem and only 16 percent perceived financial institutions were in financial straits.

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**Table 5. Farmers' opinions on the financial conditions in farming**

How do you feel about the current financial well-being of?		Not a problem or a slight problem	A moderate or serious problem
		—Percent—	
Farmers in your area	Spring 2003	32	61
	Spring 1996	48	44
	Spring 1986	4	93
Agribusiness firms in your area	Spring 2003	43	48
	Spring 1996	63	28
	Spring 1986	9	85
Financial institutions in your area	Spring 2003	74	16
	Spring 1996	79	11
	Spring 1986	25	64
Your own farm	Spring 2003	68	30
	Spring 1996	77	21
	Spring 1986	36	63

Farm family financial situation, continued from page 2

**Iowa farmers' non-farm business operations**

Many farmers have turned to operating a non-farm business to bring in additional income. Twenty-one percent of the sample of farm operators stated they also operated a non-farm business.

Table 6 shows that the predominant type of non-farm business operated was a farm related business, such as seed sales or custom work (26 percent).

Additional common types of non-farm businesses are crafts or homemade items such as woodworking or pottery and repair and maintenance such as welding or auto repair.

**Table 6. Types of non-farm businesses operated by Iowa farmers**

	Percent
Farm related business, such as seed sales, custom work	26
Crafts or homemade items such as woodworking or potters	9
Repair an maintenance such as welding or auto repair	8
Operator of a booth at a farmers' market or flea market	6
Personal services such as beautician, bookkeeping or photography	6
Services such as lawn care or car wash	4
Entertainment and recreation such as a restaurant or video rental store	1
Other	39

**Presence of Mad Cow disease in U.S. raises significant questions concerning U.S. food safety policies \***

*by Roger A. McEowen, Associate Professor of Agricultural Economics and Extension Specialist, Kansas State University; and Neil E. Harl, Charles F. Curtiss Distinguished Professor in Agriculture and Professor of Economics, Iowa State University*

The detection of a Holstein cow infected with Bovine Spongiform Encephalopathy (BSE) (commonly known as "mad cow" disease) at a dairy in Washington state raises significant questions about the effectiveness and validity of existing food safety regulations and the ability of the federal government to detect the presence of the disease under current procedures. Likewise, the presence of BSE in the U.S. will almost certainly force the Congress to reconsider legislation that addresses the safety of the U.S. meat supply.

**BSE basics**

BSE is a fatal disease in cattle that causes degeneration of the brain and is evidenced by staggering and weight-loss of the infected animal. BSE was first detected in the United Kingdom in 1986, and has since spread to over 23 countries. To date, over 180,000 cases of BSE have been detected worldwide, and approximately 150 human deaths have occurred.

Scientific findings in recent years have revealed that feeding cattle the rendered remains of sick animals spreads the disease. Consequently, the USDA has imposed various import controls and has adopted a feed ban prohibiting the use of

most animal-derived proteins in cattle feed. The USDA also collects and analyzes brain samples from adult cattle with neurological symptoms and adult animals that were non-ambulatory at slaughter. However, current U.S. law does not require that cattle be tested before slaughter or that the tissues that harbor the disease (brain and spinal cord) be banned from possible human consumption.

**Legal challenge to USDA regulations**

Before the USDA's announcement of the presence of BSE in the United States, an administrative challenge had been filed against USDA regulations that permit downed livestock to be used for human consumption after passing a post-mortem inspection. The plaintiff, a beef consumer, claimed that the USDA policy violated the Federal Meat Inspection Act (FMIA) and the Federal Food, Drug, and Cosmetic Act (FFDCA). The FFDCA prohibits the manufacture, delivery, receipt or introduction of adul-

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teredated food into interstate commerce, and provides that any food that is "in whole or part, the product of a diseased animal" shall be deemed "adulterated." USDA regulations define "dying, diseased or disabled livestock" as including animals displaying a "lack of muscle coordination" or an "inability to walk normally or stand." Thus, the consumer argued that the agencies should label all downed livestock as "adulterated," and that the consumption of downed animals created a serious risk of disease transmission (particularly the risk that humans will contract a fatal disease by eating BSE-contaminated beef products) and that elimination of downed cattle from the human food stream was necessary to protect public health.

On May 25, 1999, the USDA's Food Safety and Inspection Service (FSIS) denied the petition on the basis that FSIS was bound by the definition of "adulteration" set forth in the FMIA for all livestock slaughtered at a federally-inspected slaughterhouse, and that the FMIA does not classify all products from diseased animals as adulterated. The FSIS also took the position that its regulations were consistent with the FMIA which permits the carcasses of diseased animals to be passed for human food if an FSIS veterinary officer determines that the carcass is safe for human consumption. The plaintiff sought judicial review under the Administrative Procedure Act, and the USDA motioned to dismiss the complaint on the basis that the consumer lacked standing to sue because no allegation was made that BSE had ever been detected in the U.S. and, as a result, any asserted injury was merely speculative. The Federal District Court for the Southern District of New York granted the USDA's motion to dismiss on the basis that the alleged harm was "too remote" to support standing.

On appeal, the Second Circuit vacated the district court's opinion and remanded the case. The Second Circuit pointed out that a beef consumer, to establish standing, must allege and prove an injury-in-fact (not merely conjecture) that is fairly traceable to the challenged action of the USDA which is likely to be re-

dressed by the requested relief. According to the court, enhanced risk of disease transmission due to the USDA's position of allowing the meat from downed livestock to be used for human consumption constitutes injury-in-fact in the context of food and drug safety statutes. The court noted that the purpose of the FMIA and the FFDC (the statutes USDA is alleged to have violated) is to ensure the safety of the nation's food supply and to minimize the risk to public health from potentially dangerous food and drug products. Thus, the court found a direct connection between the type of injury alleged and the fundamental goals of the statutes the lawsuit was based upon. The court also stated that standing is not to be denied simply because numerous people (here, consumers of beef) may suffer the same injury.

As to whether the plaintiff had successfully alleged a non-conjectural risk of harm by asserting an enhanced risk of disease due to the USDA policy of allowing the meat from downed cattle to be used for human consumption, the court noted that even a moderate increase in the risk of disease may be sufficient to confer standing. While the USDA maintained that there was no evidence of the presence of BSE in the U.S. (and that it was never likely to enter the U.S.), the court noted that a General Accounting Office (GAO) report in January of 2002 challenged the basis for the USDA position by raising concerns about the effectiveness of current federal BSE prevention and detection efforts. The GAO report also noted that an FDA advisory committee had recommended that the "FDA consider taking regulatory action to ban brains and other central nervous system tissue from human food because of the potential risk of exposure to BSE-infected tissue." The court also pointed out that the USDA's FSIS, in a Think Paper, had acknowledged that BSE-infected animals may pass the required post-mortem examination and be offered for human consumption. Consequently, the court held that the plaintiff had alleged a credible threat of harm from downed cattle, and had standing to challenge the USDA regulation.

Presence of Mad Cow disease in U. S. raises significant questions concerning U.S. food safety policies, continued from page 4

Defeat of proposed legislation

In July 2003, the United States House of Representatives defeated by a vote of 202-199 an amendment to the Fiscal Year 2004 Agricultural Appropriations bill (enacted shortly thereafter as the Consolidated Appropriations Act of 2004) which would have prohibited meat packers from passing through inspection any "nonambulatory livestock." The legislation was earlier proposed as an amendment to the Farm Security and Rural Investment Act of 2002, but was later offered as an amendment to the Fiscal Year 2004 Agricultural Appropriations bill. Although the amendment had been passed by the Senate, the Conference Committee on December 9, 2003, stripped the provision from the Agricultural Appropriations bill which then was passed.

The proposed legislation, entitled the "Downed Animal Protection Act," in addition to prohibiting an establishment covered by the FMIA from passing nonambulatory livestock through inspection, would also have prohibited an entity covered by the legislation from moving nonambulatory livestock while the livestock was conscious and would have required covered entities to humanely euthanize such livestock. Nonambulatory livestock would have been defined to mean "any cattle, sheep, swine, goats, or horses, mules or other equines, that

are unable to stand and walk unassisted." The Secretary of Agriculture would have been directed to promulgate regulations to provide for the humane treatment, handling and disposition of nonambulatory livestock by a covered entity, including the requirement that nonambulatory livestock be humanely euthanized. The term "covered entity" would have included a stockyard, a market agency, a dealer, a slaughter facility and an "establishment." The term "establishment" would have been defined to include any firm covered by the FMIA.

Future developments

The discovery (and later confirmation) of BSE in the U.S. in December 2003 is likely to lead to the invalidation of the existing USDA regulations that allow meat from downed livestock to enter the human food supply when the merits of Baur are addressed by the federal district court on remand. It is also likely to provide strong support for the Congress to reconsider the Downed Animal Protection Act and other policy steps (including increased testing, if not required testing, for all cattle, tightened rules on the feeding of animal by-products to bovine, a system for tracing livestock, Country of Origin Labeling and legislation that gives the federal government power on a mandatory basis to order a recall) to assure consumers (and import nations) that the U.S. meat supply is safe.

World Bank study: China becomes dependent on imports to feed its population. Really?

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The World Bank report, 2003 Global Economic Prospects: Realizing the Development Promise of the Doha Agenda, concludes that under a "pro-poor" scenario "a deal to lower global trade barriers could add more than \$500 billion a year to global incomes by 2015, lifting 144 million people out of poverty." In a previous column we reported that, by our calculations, this scenario models a drop in crop production in the European Union (EU) of between 50 percent and 70 percent for crops like oilseeds, wheat and other grains.

These numbers are breathtaking and, at the very least, would represent a 180 degree departure from the food self-sufficiency original raison d' tre of the European Common Agricultural Program (CAP). Such model results tend to be debatable, if not unreasonable, because they flow from the pursuit of a single objective: least-cost food production—totally ignoring the nature of agriculture and the unique importance of food in societies worldwide.

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World Bank study: China becomes dependent on imports to feed its population. Really?, continued from page 5

In this column let's see what the World Bank's food-cost minimization model would predict for the world's largest developing country, China and its 1.3 billion people.

Under the "pro-poor" scenario, the World Bank shows total Chinese agricultural production dropping by 5 percent. This appears relatively insignificant until one looks further into the numbers. A researcher at the Center for Chinese Agricultural Policy estimates that under trade liberalization the animal agriculture sector in China will grow at a compound rate of 2.28 percent annually above the baseline. This would suggest an increase in livestock production of 22 percent above baseline by 2015.

If Chinese total agricultural production is projected to go down while livestock production is expected to go up, crop production must be taking the hit. In fact, given available numbers, crop production would have to drop by over 20 percent from the baseline.

The net result of this more than 20 percent drop in crop production is twofold.

First, under this scenario, China would become a net importer of as much as 20 percent of its consumption needs for seeds and grains. Here again we are talking about a 180 degree flip in attitude about food policy; this time a change in food policy by, arguably, the most food-security-conscious country in the world, China.

Second, with 50 percent of its 1.3 billion citizens directly engaged in agricultural production, a drop in crop production of more than 20 percent would put one whale of a lot of people out of work, some would say upwards of 100 million in addition to the 100 million currently displaced rural workers.

Given the level of agricultural research going on in China and the pronouncements by Chinese government officials concerning future agricultural production intentions, it is also possible that China may be a larger net exporter in 2015 than it is today, trade liberalization or not.

If there is anything we have been good at during the last decade or two, it's underestimating the ability of the Chinese to produce, store and export.

**... and justice for all**

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