

DEPUTY SECRETARY KATHLEEN MERRIGAN
“THE INTERSECTION OF MIDWEST AGRICULTURE AND RURAL DEVELOPMENT”
FEDERAL RESERVE BANK OF CHICAGO
CHICAGO, ILL
TUESDAY, NOVEMBER 9, 2010
12:00 P.M.

Dan, thanks very much. It’s an honor to join you.

With a President from Illinois and a Secretary from Iowa, there’s a Midwest sensibility that runs through our veins at USDA ... even if you’re a New Englander like me.

I’ve got to thank you for focusing here on the Intersection of Midwest Agriculture and Rural Development. You’ve hit squarely on what this Administration has been about for almost two years and a direction you’ll see continue.

The tools that Congress provided USDA in the 2008 Farm Bill and the Recovery Act are working to make rural America stronger—but we must go further in the next Farm Bill to pursue new strategies that foster sustainable and significant economic growth in rural America for the long term.

I know there's a perception that agriculture and rural development run on parallel tracks, separate and distinct.

But under this Administration, USDA is linking agriculture's resources to the needs that exist in rural America in ways that will sustain long-term change. Agriculture, in short, is front-and-center of our rural development strategies.

We have a deep commitment to rural America. We understand the challenges faced by rural communities. And we recognize that because of their agricultural resources, these communities are uniquely situated to take advantage of the remarkable opportunities of this century.

More importantly, we're doing something about it.

From Recovery Act funds ... to investments in ag entrepreneurs and small businesses ... to promoting a biofuels industry ...and advancing local and regional food systems ... we've taken short-term actions to boost the rural economy in these tough times. And we've set in motion a longer-term course to give rural America a springboard for success in the 21st century.

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In the short-term, of course, the impetus is the economy.

Tom Vilsack is from America’s heartland. He has said he had the “privilege and honor” in his early years as a lawyer in Mt. Pleasant, Iowa, of representing farmers who were losing their homes.

That was in the 1980s when land prices were dropping dramatically. Now he’s turned that same concern to the silent crisis pervading rural communities in the past few decades.

Although one American farmer helps to feed 155 people, only 11 percent of family farm income comes from farming.

Poverty rates are higher than in the rest of the country. Rural America is older ... has lower income levels ... outdated infrastructure ... less access to health care facilities ... and fewer college degrees.

Ninety percent of the nation’s persistent poverty counties are rural.

And with the ongoing lack of a diversified economic base, young rural Americans look elsewhere to find the economic opportunity their communities fail to offer.

As a result, population loss and outmigration continue, perpetuating the cycle of decline.

Midwesterners know better than anyone that this isn't just about farm income; it's about rural hospitals, libraries, schools, and main street.

To help turn this around, USDA has been investing in Midwestern rural communities under the President's Recovery Act of 2009.

Here in Illinois, USDA Rural Development has distributed almost \$458 million in broadband, community facilities, single family housing, water and waste disposal, and business development.

In Michigan, the investment is nearly \$1 billion ... in Wisconsin, over \$565 million ... in Indiana, almost \$400 million ... and in Iowa, \$324 million.

These are partnerships, pure and simple. They benefit farmers and ranchers, internet users, homeowners, and businesses.

With Recovery Act funds, we've approved over \$300 million this year in Business and Industry guaranteed loans for projects in the five states you represent (*MI, WS, IA, IN, IL*).

Add another \$220 million in regular B&I funding, and we're investing over \$520 million in the Seventh Federal Reserve District in 2010.

To give this a little perspective, it means that 18 percent of the unprecedented \$3 billion in B&I loans we've made this year are creating and saving thousands of jobs here in the Midwest ... in places like Morton, Illinois and Brodhead, Wisconsin.

Back in 1937, the Rocke family founded RMH Foods, a food processing company, in Morton. Smithfield Foods acquired the company in 2001 and last year announced plans to sell that part of its portfolio.

Determined to keep the plant running, Jonathan Rocke, a third generation member of the original owners, put together a group of investors who matched a B&I loan under the Recovery Act with other funding.

The loss of the plant would have hit the local economy hard, but the federal-private investments turned the situation around.

Plant employees now earn good salaries. The company is using local resources in its operations and the local economy—already suffering job losses—is now benefiting all around.

And in Green County, Wisconsin, a B&I loan will help Decatur Dairy expand its operations. The business is already near production capacity at 30,000 pounds of cheese per day.

The dairy receives milk from a local cooperative of 72 farmers and employs 22 people earning an average of \$9.50 per hour.

The funds will go to two milk silos, refrigeration and other equipment—all of it made in the USA.

Any way you look at it, loans like these are a down payment on the nation's infrastructure ... energy independence ... health care ... educational opportunities ... lives and livelihoods.

And these efforts are working. We've had solid and encouraging economic news in the past few months.

Net farm income is up 24 percent from 2009.

We expect that net cash income will be the second highest on record. And other indicators—including farm asset values and equity values—also point to a sustainable recovery.

Clearly, funds pumped into the economy through the Recovery Act are behind this strength. But so is our quick and efficient implementation of the 2008 Farm Bill.

As one recent example, we've announced funding to recipients in 34 states under USDA's Rural Micro-entrepreneur Assistance Program.

RMAP, as it's called, is one of the most exciting new initiatives from the 2008 Farm Bill program. Micro-lending leverages comparatively small amounts of money to turn loans into economic development and jobs.

In the five states in your District, micro-entrepreneurs are receiving a total of \$4.5 million in loans and over \$1 million in grants.

We want to give small businesses and small and mid-sized farm owners every chance to prosper. Sometimes entrepreneurs just need a small amount of money to get underway. They need a leg-up with financial and technical assistance, and training.

Microloans give them that jump-start.

But I want to be clear that RMAP—like B&I and other programs—doesn't stand alone. They're all part of the elements of a new rural economy ...an economy that will be built on a combination of the successful strategies of today and the compelling opportunities of tomorrow.

I've talked a little about some of USDA's current strategies that are already injecting economic gain into rural America, restoring jobs and bringing communities back to life.

But transforming rural America is a vastly complex undertaking. Rural America comprises three quarters of the nation's land area. Its communities are home to more than 50 million people.

The Secretary and I are committed to the future of these communities. And we've given long, hard thought to how USDA can reverse the dynamic of outmigration and decline.

We know and understand the abundance of resources that rural America offers—in terms of both agricultural resources and the sheer power of the rural entrepreneurial spirit.

The challenge, as the Secretary and I see it, is how to harness these resources and put them to work to rescue and revitalize our rural economies in this century.

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## **LONG-TERM DEVELOPMENT: PILLARS**

**As a result, we've identified five pillars to support a foundation for growth and opportunity in a rapidly changing 21<sup>st</sup> century economy.**

**There isn't the time here to delve into all five—which include rural broadband access ... natural resources ... and ecosystems markets—because I'd like to go into some detail on renewable energy and developing local/regional markets.**

### **Renewable fuels**

**Iowa and the Midwest have led the nation in the development of the ethanol industry and the businesses it's generated.**

**Thanks to American farmers, the industry grew from meeting 1 percent of the U.S. gasoline supply in 2000 to 8 percent in 2009. And I'm proud to say USDA has been a full partner.**

**This year alone, for example, the Renewable Energy in America Program provided 2400 grants and 450 guaranteed loans, with a sizeable amount going to the Chicago Fed's five-state region.**

**REAP, as it's known, helps small businesses and producers buy and install renewable energy technologies.**

**There's no question that biofuels play a strategic role in ensuring our energy independence, competitiveness and prosperity in years to come.**

**When Congress passed the Energy Independence and Security Act of 2007, it laid out the challenge to produce 36 billion gallons of biofuels by 2022.**

**The Renewable Fuel Standard, known as RFS2, reaffirmed that goal—with 21 billion of the 36 billion gallons coming from advanced biofuels.**

**USDA ... indeed the federal government ... will work to meet these goals in specific ways.**

**We're investing in the research necessary to ensure that profitable biofuels can be produced from a diverse range of feedstocks.**

**We're encouraging farmers to produce these feedstocks.**

**And we're helping to build the infrastructure necessary to produce the fuel and deliver it to consumers.**

**First, we'll develop a biofuel industry powered by feedstocks produced in every corner of the country.**

**The report put out by the President's Biofuels Interagency Working Group called for the establishment of five USDA regional Biomass Research Centers for developing non-food biomass feed stocks.**

**The Centers will service regions of the country best suited for advanced biofuel production.**

**Your region ... serviced by the Central East Center ... could provide 43 percent of the total advanced volume of 21 billion gallons. This would involve perennial grasses, woody biomass, and logging residues.**

**And I want to stress here that we're not abandoning corn ethanol as we look toward how USDA can realize the RFS2 mandate.**

**Second, as research identifies alternative feed stocks and as biorefineries are built to process them, we must encourage producers to grow the feed stocks.**

**The Biomass Crop Assistance Program will figure into that incentive. It will help producers who are ready to be part of this energy revolution to defray costs of production, storage and transportation.**

**Third, because convenient locations where consumers can obtain higher blends of biofuels are in short supply, we're helping to install 10,000 blender pumps and storage systems over the next five years.**

**Some convenience stores and filling stations remain reluctant to incur the cost of new pumps and tanks.**

**Finally, we're working closely with federal and commercial partners who recognize that biofuels can reduce their energy costs and bolster strategic goals.**

**We're already partnering with the Department of the Navy as it prepares for a biofuel future by building a biogreen fleet. At the same time, we're working with the Federal Aviation Administration and commercial airline industry to develop feed stocks that can be processed into jet fuel.**

**In short, this Administration believes that home-grown energy will power far more than our cars, trucks, jets, ships and tractors.**

**As we build a successful domestic biofuels industry, that industry will help power a rural resurgence. Hundreds of refineries will dot the landscape.**

**Someone has to build these plants. Someone has to produce the parts for these plants. Someone has to maintain these plants. Someone has to run these plants. This will all be done in rural America.**

**And someone has to provide stock for the fuel. This means new opportunities for America’s farmers and ranchers ... hundreds of millions of dollars pumped into the economy ... and hundreds of thousands of jobs in our rural communities.**

**Regionalism and Local/Regional**

**It also means putting agriculture’s resources to work for energy independence ... for tackling climate change ... and for the development of our rural communities.**

**And as we gear up research to help growers produce energy from new feedstocks on a regional basis—through increased coordination of Biomass Research Centers—we’re also helping communities come together to address their needs regionally and collaboratively.**

**USDA’s work in rural regional innovation will improve economic conditions in rural areas, particularly in underserved communities.**

**When communities connect and cluster their economies geographically based on self-identified strengths, they boost productivity, build more robust communities, and maximize scarce federal resources.**

**Kicking off this initiative in September, the Secretary announced projects to receive broadband funding and Rural Business Opportunity Grants ... including recipients in Iowa and Ohio.**

**In connection with this work, I want to mention that USDA RD has partnered with the Chicago Council for Global Affairs Midwest Initiative on a paper focused largely on regional development ... “Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest.”**

**KYF2**

**Working hand-in-hand with our efforts to open doors to rural economic opportunity, last year we launched an initiative called *Know Your Farmer, Know Your Food*.**

**You may recall that a few years ago, then-Senator Obama spoke of support for local and regional food systems in Iowa and Secretary Vilsack has spoken passionately on this topic around the country.**

**Local food is one of the fastest growing segments of agriculture. We expect consumer demand for locally grown food in the United States to rise from \$4 billion in 2002 to \$7 billion by 2012.**

**Studies show that meeting the Midwest’s demand for regionally produced fruits and vegetables could generate significant activity. One study estimated just the fresh produce demand could represent close to \$900 million in sales and create as many as 9,000 jobs.**

**KYF2 has a three-way goal: to create new economic opportunities for producers... to promote local and regional food systems that keep wealth in rural communities ... and to encourage a national conversation about what we eat and where it comes from to benefit producers of all sizes.**

**Producers can earn more when there is an agricultural infrastructure—processing, aggregation and distribution, shipping and sales—that enables them to efficiently serve regional markets.**

**For example, small and mid-sized farms need drop-off points used by many farmers and pick-up points for distribution firms.**

**They need a management team that coordinates supply chain logistics. They need permanent facilities, space and equipment for storage, processing, packaging and even marketing.**

**The Producers & Buyers Co-op in Eau Claire, Wisconsin, for example, is a very innovative food hub model, with a little boost from USDA and a Value-Added Producer Grant for \$55,000.**

**The co-op has been crucial in procuring the locally-sourced farm products sold to Sacred Heart Hospital. As a result, the hospital has committed to spending 10 percent of its food budget on local produce and meat.**

**In an article this month in “*The Progressive*,” Rick Beckler, Sacred Heart’s director of hospitality services, says, “We were used to placing an order and having everything come in the door exactly how we wanted it.**

**“We didn’t have a clue where it was produced or who grew it. We didn’t know even what continent it came from... I’m tired of buying chickens that have road rash from Carolina. I’m tired of buying cantaloupe that have more frequent flyer miles than I do.”**

**Bringing together farmers and food service managers was a trial and error process. But the co-op changed the dynamic, and brought the two sides together, along with food processors.**

**The hospital now buys from the co-op rather than individual producers. And it extends the health system into prevention and wellness through the food served patients and staff.**

**I also want to mention that USDA helps support new and existing fruit and vegetable growers through the Specialty Crop Block program.**

**The Illinois Department of Agriculture, for example, is using an award to create a business plan with FamilyFarmed.org. Together, they're planning a pack house that will establish a network of Illinois fruit and vegetable growers committed to scaling up production for wholesale buyers.**

**And on the education front ... to help school administrators as they transition to buying more locally grown foods ...USDA has formed a Farm-to-School Team. The team is connecting children with regional or local farms by serving healthy meals using locally produced foods.**

**At the same time, Farm-to-School gives small producers new marketing opportunities.**

**So far, the Team has visited 15 schools across the country where they've met local and state authorities, and school and community officials.**

**Two of the visits were in Wisconsin and one in Iowa.**

**Beyond the individual projects funded by various USDA programs, the *Know Your Farmer, Know Your Food* Initiative is helping to disseminate models and experiences ... and so make it less risky to build these regional value chains.**

**We are able to share some of the successes and learning curves so that the investment community has more data and more confidence in helping to meet the local foods demand.**

**As these local supply chains grow, they create more jobs and more prosperity in rural America.**

**With that brief look into Know Your Farmer, I hope I've given a sense of the ways we're using government programs and resources to link agriculture and consumers; and the opportunities we must seize to bring producers together with consumers and institutional buyers ... for the benefit of all.**

**Like biofuels, *Know Your Farmer* is one part of a long-term strategy that's more than visionary. It's practical, in the works, already effective, and laying the groundwork for prosperity in rural America.**

**Altogether, our actions are marshalling agriculture's resources... in ways that may be unprecedented ... and channeling them to the opportunities of this century. In the process, we're setting in motion a course of development and resurgence in our rural communities. Thank you.**

