

**Remarks by
The Honorable Nancy C. Pellett
During the
Farm Credit Services of North Dakota, ACA
Annual Meeting
Minot, North Dakota
March 23, 2004**

Thank you for that very generous introduction and good evening to all of you.

I am truly honored that you invited me to join you tonight at your Annual Meeting. It is always a pleasure to spend time with people who care deeply about agriculture.

I want to commend the Farm Credit Services of North Dakota Board of Directors and all the staff for the high quality of service they provide to ensure that your membership is successful in their farming operations.

Tonight, I would like to tell you a little bit about the Farm Credit Administration, which is the organization I represent, and then offer some thoughts about the changes I see in the agricultural and rural landscape in which you all work and live.

Ladies and gentlemen, I believe my knowledge of agriculture is deep, and that my understanding of rural America is deep, as I have worked it, and lived it, my whole life. My experience has given me a strong passion to be involved and to make a difference for agriculture and rural America.

And that, ladies and gentlemen, is the principal reason why I accepted the invitation of the President to come to the Farm Credit Administration.

So, let me tell you a little bit about the Farm Credit Administration.

We are an independent federal agency that is responsible for overseeing the operations of the 100 or so lending institutions, like your Farm Credit Services of North Dakota, that comprise the Farm Credit System nationwide.

Our mission is to ensure that Farm Credit System institutions remain capable of providing agriculture and rural America with a dependable source of credit.

We accomplish this mission in two ways.

First, we conduct a basic financial safety and soundness examination of each Farm Credit System institution. If we see problems in how an institution conducts its business, we have authorities available to us to ensure problems are corrected promptly.

Second, we develop regulations that govern how Farm Credit System institutions conduct their business. Twice a year we publish what is called our unified agenda, which describes the regulations we will be working on over the next six months.

We are led by a full-time, three-person board comprised of myself and fellow board members Doug Flory and Mike Reyna. Each board member is appointed by the President with the advice and consent of the U.S. Senate. The President, in turn, designates one of the members as chairman of the board and chief executive officer of the Agency. That position is currently held by Mr. Reyna. Together the three of us direct the activities of a small group of highly qualified professionals, less than 300 nationwide.

I must tell you that I am extremely honored to be a board member and proud to bring the perspective of production agriculture and rural America to the discussions, and ultimately the decisions, that will affect how Farm Credit institutions will service your needs to ensure that you are successful in your individual operations.

As a board member, one of the things I try to stress is that we must conduct our business openly by soliciting the input of all parties impacted by our proposed regulatory actions. And this cannot be accomplished by spending all my time in the Washington, D.C. area.

As President Dwight Eisenhower said, "Farming looks mighty easy when your plow is a pencil, and you're a thousand miles away from the cornfield."

That is why I consider visits like this critical for me to stay in touch with what is happening in agriculture and rural America. So again, I thank you for the opportunity to be here.

The key area I want to comment on tonight is the significant changes that have occurred in agriculture and rural America, and what they may mean for the future.

Over the past 30 years, things have certainly changed around my area in Iowa and I assume they have around your area also.

The national statistics are staggering. In 1970, 26 percent of the American population was considered rural. By 2000, Americans living in rural areas had dropped to 21 percent of the population. Over the same time period, the total American labor force grew by 70 percent, while agricultural employment actually declined 5 percent. Additionally, the number of farms in operation declined from 3 million in 1970 to around 2 million in 2000, or a drop of one-third.

In North Dakota you dropped from a 55 percent majority of the population defined as rural to 44 percent, a much more rapid decrease. While North Dakota's total labor force expanded by 30 percent, agricultural employment fell by almost 80 percent. And your number of farms dropped by 28 percent. Yes, the changes have been very significant.

Ladies and gentlemen, the voice of agriculture is just simply getting smaller every day. With fewer and fewer people directly involved in agriculture, there is less understanding of the needs of agriculture and rural America. These trends also indicate that only a fraction of the next generation will have rural roots or work in agriculture.

Speaking of the next generation, the President's direction is that we have a strong agriculture and a vital rural America with special attention given to young and beginning farmers. I am proud to say that the Farm Credit System has several excellent programs directed at helping this critically important group of borrowers.

I also know that last year Farm Credit Services of North Dakota was recognized nationally for the high quality of its program to assist young and beginning farmers. I commend your board and management for their splendid efforts in this area.

The news on the economic side is also not very encouraging for any of us. Inflation adjusted price changes for commodities from the early 1970s to now, show a significant downward trend: corn down 57 percent, wheat down 45 percent, soybeans 55 percent, and milk 33 percent.

So how did we all survive?

Well, basically we got bigger, we got a lot of support from the government, and we also got a lot smarter.

I have seen it in my own family's operation and I know that you have seen the same with yours. We diversify as much as is practical, we keep adding to our operation, forming partnerships, forming alliances, integrating, in order to generally get bigger or, in many cases, to remain viable.

Also, scientific advancements in plant and animal genetics along with mechanization significantly advanced agriculture's productivity. Since 1970 corn yields rose 66 percent, milk yields have increased 85 percent, and wheat 31 percent.

But what we did in the past to survive may not be enough to assure us of a secure future.

The entire farm sector is increasingly reliant on off-farm income and continued government payments. Over 90 percent of all farms are small and the majority of these producers are part-time farmers who do not consider farming their primary source of income. Instead, they rely on additional business opportunities to improve their economic welfare.

But where are these business opportunities?

From my own perspective, capital investment into these rural businesses is critical to the quality of life experienced by the farmers and ranchers living in rural America. So many you, in fact about 82 percent nationwide, depend upon outside income to sustain your farming operation.

Therefore, investment in off-the-farm businesses is important to keep farmers in their rural communities. And this must be done in harmony with investment in rural infrastructure. The need for more flexible and innovative forms of capital from a variety of sources is critically important for rural areas and its population base to remain viable.

Many of you are getting into value-added ventures in order to get closer to the consumer and capture a little more of the middle-man dollar and pass it back to the producer. But again, these ventures are often under-capitalized from the beginning and find the going very difficult. Again, the flow of investment capital to the rural areas is minimal at best and must be increased.

All these changes, structural and otherwise, that continue to happen in agriculture and rural America will be a major factor in policy actions coming before my agency over the next year.

Our goal, as we look at several existing regulations, is to ensure that the Farm Credit System can adjust to market demands and remain a major provider of financial services to agriculture

and rural America. I am here to tell you that the Farm Credit Administration supports initiatives that will allow lending institutions to fulfill their public mission to finance your needs.

Ladies and gentlemen, it has been an honor to spend some time with you tonight, and I want to close by wishing each of you all the success in the world as you carry on the time-honored tradition of working the land.

Agriculture is a good life, and I truly believe it is one of the most honorable endeavors anyone could undertake.

Your contribution to the citizenry of this great country is breathtaking. American consumers have benefited enormously from your highly productive endeavors as reflected in the declining share of money that they have to spend on food—from 21 percent in the 1970s to around only 14 percent now.

I want your ability to contribute to not only continue but to also flourish so that America becomes even greater, and that you continue to experience the richness that deservedly flows from a life dedicated to agriculture and rural America.

For this to happen requires a strong agricultural sector and vital rural communities. That is the principal reason why the Farm Credit System exists, and it is the role of us at the Farm Credit Administration to ensure that your association remains financially capable and operationally equipped to support your dreams.

Thank you again, and if you want to talk later, I would consider it a privilege to meet with any of you after the meeting.