DEPARTMENT OF AGRICULTURE FISCAL YEAR 2002 BUDGET PRIORITIES

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 14, 2001

Serial No. 107–9

Printed for the use of the Committee on the Budget

Available on the Internet: http://www.access.gpo.gov/congress/house/house04.html

U.S. GOVERNMENT PRINTING OFFICE

70–997 DTP WASHINGTON : 2001

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DEPARTMENT OF AGRICULTURE FISCAL YEAR 2002 BUDGET PRIORITIES

WEDNESDAY, MARCH 14, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 1 p.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Hastings, LaHood, Schrock, Gutknecht, Thornberry, Brown, Fletcher, Watkins, Collins, Bass, Culberson, Spratt, Moore, Hooley, Clayton, Putnam, McDermott, and Matheson.

Chairman NUSSLE. I call the full Committee hearing of the Budget Committee to order.

Today we have the opportunity to continue our exploration of the President's fiscal year 2002 budget with an examination of the Department of Agriculture budget priorities. Today we are honored to have with us the 27th Secretary of Agriculture, the Honorable Ann Veneman from California, who is the Secretary of Agriculture.

We're so happy that you are with us today to visit with us about not only the President's priorities, but your priorities as you return to the Department of Agriculture in a new role. We were just reminiscing about a former colleague, Ed Madigan, who was not only a colleague of ours, and a dear friend of mine when I first came to Congress, but then of course went to the Department of Agriculture and whom you served for for that period of time. So we welcome you back to your role in the Department of Agriculture.

As the markets continue to fluctuate out there, we particularly from farm country, coming from Iowa, the markets that we watch of course more closely maybe than any others are those that affect us in agriculture. Those markets have been down, maybe not as newsworthy to most, to the general public as they are to farmers and to ranchers across this country. But they've been fluctuating down for many years now.

We have a real challenge out there in farm country. Bad news with regard to the economy is not news to those of us that come from rural areas and farm country. One of the great challenges, I think, that you have and the Administration has, together with us as partners, is to work at trying to do what we can in order to restore not only faith but to restore confidence, restore safety and security back into our food and that important resource that all of us take for granted.

We all pick up the gallon of milk at the store and sometimes we forget that it comes from our farmers, or we buy that loaf of bread and those corn flakes and we forget about all the hard work that goes into it. We hear the stories about the box costing more than the ingredients these days.

There are people out there that are in need of attention from the administration and from us as we work through this budget. I see a couple of challenges, and I'll mention them briefly to you. Firstly, with the emergencies we've been having in the farm program over the last couple of years in particular, I'm not sure that we can wait until next year for reauthorization of the full Farm Bill.

We may want to look at a portion of that Farm bill being authorized even as early as this year, possibly by the end of this year, looking at the commodity programs to look at some changes, so that it takes effect as quickly as possible and we don't have this constant dipping into emergency funding to deal with our farmers. They don't want it. It's not what they want. They certainly need it, and we gladly provide it. But that's not the farm program they want, one that is based on emergency checks that go out from Washington, D.C.

The second challenge that I would just report to you is one that involves the Department of Agriculture as a whole. I hear unfortunately some complaints about the way that constituents are being served through the different agencies, getting their responses attended to. You have a lot of great people that work down at the Department of Agriculture. But sometimes those great people working in poor systems don't always get to do the kind of work that we all want them to do.

I would just encourage you, similar to what the President has suggested in the Department of Defense, that we consider a top to bottom review of the Department of Agriculture. It's not just that which affects farmers. We held hearings last year on the Food Stamp Program and on trafficking of food stamps that continues to go on, using it as a currency in some neighborhoods of our country, not using the technology and the good, new technological practices that are available, such as ATM cards, electronic transfers.

So there are some challenges out there that we're hoping can be addressed by your administration as well as by the budget. We look forward to your testimony and the chance to ask you some questions about that.

Welcome, and we look forward to working with you on these very important programs.

I'd now like to recognize the Ranking Member, John Spratt, from South Carolina.

Mr. SPRATT. I'd also like to extend a warm welcome to you. We appreciate very much your coming. We'll have questions about the program later, but let me simply say we look forward to working with you.

Chairman NUSSLE. Madam Secretary, your entire testimony will be made part of the record, and without objection, all members will be allowed to put a statement into the record at this point.

You may summarize testimony or proceed as you would like. We welcome you and we look forward to your testimony.

STATEMENT OF HON. ANN M. VENEMAN, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary VENEMAN. Thank you, Mr. Chairman, and members of the committee. It is an honor for me to be here today. I appreciate the initiative you have shown in calling this hearing, because the issues that are affecting farmers, consumers and other constituents of the Department's programs are, as you pointed out, very important.

As you know, the administration recently issued a blueprint document outlining its budget priorities for fiscal year 2002. While the detailed budget will not be submitted to the Congress until the first part of April, I want to give you the best possible overview of our priorities.

There are three overarching considerations that shape the administration's approach to developing the budget for 2002. These include, first, slowing down the growth of Federal spending and funding urgent national priorities; second, achieving historic levels of debt reduction; and third, providing tax relief.

Farmers and other beneficiaries of USDA programs all have a stake in these objectives and will benefit from the President's initiatives, particularly tax relief. Farmers especially will benefit from the elimination of the estate tax and from the proposed establishment of tax deferred risk management accounts.

Restraint of Federal spending is important, since it has grown substantially in recent years. Left unchecked, this growth would cause spending to far exceed the Budget Enforcement Act baseline over the next 10 years. USDA has contributed to this accelerating growth of Federal spending.

Over a 10 year period, USDA outlays increased by about $24 billion, from $46 billion in 1990 to nearly $70 billion in 2001. In recent years, USDA outlays have been highly variable, largely reflecting emergency spending to address natural and economic disasters in the agricultural and rural economy. Substantial growth occurred in both mandatory and discretionary spending.

I'm sure this committee is aware that the Department of Agriculture has one of the most diverse sets of discretionary programs in the Government. In 2001 our discretionary budget will exceed $19 billion. The largest discretionary program that we administer is the Special Supplemental Nutrition Program for Women, Infants and Children, commonly referred to as WIC. This provides nutrition assistance to some of the most vulnerable and needy people in our society.

The discretionary budget also provides funding for other crucial responsibilities, such as pest and disease control, domestic and international marketing assistance programs, conservation, rural development, research, food safety and the U.S. Forest Service. Developing a discretionary budget for the Department always involves difficult questions of finding the appropriate balance between all of these programs within a reasonable budget figure.

Mandatory spending accounts for over three quarters of the Department's spending and will amount to $53.5 billion in 2001. The primary components of our mandatory budget are the Food Stamp Program, the child nutrition programs, farm support programs, and a number of conservation programs. Many of these programs are

entitlements and their funding requirements are largely dictated by economic conditions.

USDA's discretionary budget for 2001 reflects a 13 percent increase over the 2000 level, which in our view is unsustainable over the longer term. For 2002, the budget includes a more realistic level of $17.9 billion, which is about 5 percent over the 2000 level, largely reflecting the rate of inflation over the 2 years.

To achieve what we believe is the appropriate level of growth in spending, the 2002 budget proposes to eliminate approximately $1.1 billion in one-time spending provided for 2001, most of which is emergency funding. In addition, the budget saves about $150 million by eliminating approximately 300 earmarked projects that were not subject to the merit based selection process.

The budget also proposes saving taxpayers an additional $200 million by reducing or eliminating programs that are not immediate priorities or need to be better targeted.

The budget does fund a number of very important top priorities in USDA that are part of the President's agenda. First, it carries out the President's commitment to expanding overseas markets for American agricultural products by strengthening USDA's marketing intelligence capabilities and the Department's expertise for resolving technical trade issues with foreign trading partners. It also expands and strengthens our analytical capabilities in a number of USDA agencies that have trade related programs.

Second, it redirects USDA research to provide new emphasis in key areas such as improving protection against emerging exotic plant and animal diseases and pests of crops and animals, biotechnology and the development of new uses for agricultural products. It maintains funding for priority activities in the Forest Service's wildland fire management plan, including hazardous fuels reduction. In addition, the budget proposes a reserve for unforeseen national emergency disaster needs.

It also funds 7,600 meat and poultry inspectors without reliance on user fees, in addition to fully supporting other USDA food safety and inspection activities. The budget maintains average monthly participation in the WIC program at 7.25 million individuals, which is the year end level for 2000 and the participation level projected for 2001. It supports 60,000 low to moderate income rural families in their acquisition of decent, safe, affordable housing and provides access to clear, safe drinking water for 1.4 million poor rural residents.

It provides conservation assistance to 650,000 landowners, farmers and ranchers. It funds continuing actions to combat pest and disease infestations through direct appropriations rather than through emergency funding transfers. Emergency funding would be considered for unforeseen infestations.

On the mandatory side, the largest component of spending is for the food assistance programs, and that is followed by the farm support programs. Mandatory spending in the food assistance area covers both food stamps and child nutrition. The 2002 budget proposes no major changes for either of these programs. The current services outlay estimate for 2002 is $20.9 billion for food stamps and $10.3 billion for child nutrition programs. These estimates are

driven by the cost of the food benefit and the number of anticipated participants in the program.

Farm support spending carried out through the Commodity Credit Corporation, commonly referred to as the CCC, is estimated under current law at $13 billion for 2002, down from $20 billion estimated for 2001 and $32 billion in 2000. The reduction in 2002 primarily reflects the effect of emergency supplemental appropriations that added an average of over $8 billion per year to CCC outlays for the last 3 years. Out year estimates also decline as market conditions are projected to improve and reduce the assistance provided by ongoing safety net provisions like marketing assistance loans and loan deficiency payments.

Since emergency appropriations are not part of the ongoing mandatory program, they have not been projected in future years. However, I would stress that spending on farm support programs is highly variable and difficult to predict, since it is so dependent on market conditions and weather. In fact, the President's budget proposes the establishment of a contingency fund of nearly $1 trillion for use in dealing with unexpected and difficult to predict needs or necessary programmatic reforms which may emerge in the future and for which adequate resources cannot readily be found by reforming other activities. Assistance to farmers will be one of the many potential uses for this contingency reserve.

In conjunction with support to farmers provided by CCC, crop insurance reforms enacted in ARPA meet the administration's objective for improving the crop insurance program. These reforms should help reduce the need for natural disaster related crop loss assistance in 2002 and beyond. In addition, as I indicated, the administration will propose legislation to allow farmers and ranchers to reserve a substantial percentage of their net farm income in tax deferred accounts known as Federal Farm and Ranch Management Accounts that could be drawn upon during the times of financial stress.

With respect to other aspects of the farm safety net, I recognize that there are ongoing weaknesses in the farm economy. We are closely monitoring the situation, but we need to wait and see how crop and market conditions develop over the coming months. We are aware of concerns about farm financial conditions which may require additional assistance if uncertain market conditions worsen or do not improve soon.

That's one of the many reasons the administration proposed budget reforms to include an explicit contingency reserve. We will work with Congress to assess further needs for farm assistance and will take other appropriate measures, such as pursuing an aggressive trade policy and improving the effectiveness of our current programs to move the sector toward greater reliance on the market based economy.

There is currently a wide range of ideas being discussed for policy reforms over the longer term. We are reviewing the report from the Commission on 21st Century Production Agriculture and House Committee Chairman Combest has taken an important step toward establishing a framework that encourages commodity groups to work together to develop proposals for the future.

We look forward to working with the Congress and other representatives of the farm sector on these important issues. Thank you very much.

[The prepared statement of Ann Veneman follows:]

PREPARED STATEMENT OF HON. ANN M. VENEMAN, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the committee, it is an honor for me to appear before you to discuss the Administration's programs and budget priorities for fiscal year (FY) 2002.

The administration has recently issued a blueprint document outlining its budget priorities for 2002. The detailed budget is to be submitted during the first part of April. However, today I want to give you a broad overview of our priorities.

There are three over-arching considerations that shaped the administration's approach to developing the budget for 2002. These are:

- Slowing the growth of Federal spending and funding urgent national priorities.
- Achieving historic levels of debt reduction.
- Providing tax relief.

Farmers and other beneficiaries of USDA programs all have a stake in these objectives and will benefit from the President's initiatives, particularly tax relief. Farmers especially will benefit from the elimination of the estate tax and from the proposed establishment of tax-deferred risk management accounts.

Restraint of Federal spending is important, since it has grown substantially in recent years. Left unchecked, this rate of growth would cause spending to far exceed the Budget Enforcement Act baseline over the next 10 years. USDA has contributed to this accelerating growth of Federal spending.

Over a 10-year period, USDA outlays increased by about $26 billion, from $46 billion in 1990 to nearly $73 billion in 2001. In recent years, USDA outlays have been highly variable, largely reflecting emergency spending to address natural and economic disasters in the agriculture and rural economy. Substantial growth occurred in both mandatory as well as discretionary spending.

USDA discretionary spending amounted to over $19 billion in 2001 and accounted for about a quarter of total USDA spending. The Department's discretionary programs are wide ranging and include the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the largest single discretionary program, domestic and international marketing assistance programs, conservation technical assistance, rural development, research, food safety and Forest Service programs. Mandatory spending makes up over three-quarters of USDA spending or $53.5 billion in 2001 and includes funding for most domestic nutrition assistance programs other than WIC, farm support programs and a number of conservation programs.

USDA's discretionary budget for 2001 reflects a 13 percent increase over the 2000 level which, in our view, is unsustainable over the longer term. For 2002, the budget includes a more realistic level of $17.9 billion, which is about 5 percent over the 2000 level, largely reflecting the rate of inflation over the 2 years. To achieve what we believe is an appropriate level of growth in spending, the 2002 budget proposes to eliminate approximately $1.1 billion in one-time spending during 2001, most of which is emergency funding. In addition, it saves about $150 million by eliminating approximately 300 earmarked projects that were not subject to a merit-based selection process. The budget also proposes saving taxpayers an additional $200 million by reducing or eliminating programs that are not immediate priorities or need to be better targeted.

The budget does fund a number of very important priorities in USDA that are part of the President's agenda. Specifically, the budget:

- Carries out the President's commitment to expanding overseas markets for American agricultural products by strengthening USDA's market intelligence capabilities and the Department's expertise for resolving technical trade issues with foreign trading partners. It also expands and strengthens our analytical capabilities in a number of USDA agencies that have trade related programs.
- Redirects USDA research to provide new emphasis in key areas such as improving protection against emerging exotic plant and animal diseases and pests of crops and animals, biotechnology, and the development of new agricultural products.
- Maintains funding for priority activities in the Forest Service's wildland fire management plan, including hazardous fuels reduction. In addition, the budget proposes a reserve for unforeseen national emergency disaster needs.
- Funds 7,600 meat and poultry inspectors without reliance on user fees, in addition to fully supporting other USDA food safety and inspection activities.

• Maintains average monthly participation in the WIC program at 7.25 million individuals, which is the year end level for 2000 and the participation level projected for 2001.

• Supports 60,000 low to moderate income rural families' acquisition of decent, safe, and affordable housing; and provides access to clear, safe drinking water to 1.4 million poor, rural residents.

• Provides conservation assistance to 650,000 landowners, farmers, and ranchers.

• Funds continuing actions to combat pest and disease infestations through direct appropriations rather than through emergency funding transfers. Emergency funding would be considered for unforeseen infestations.

On the mandatory side, the largest component of spending is for the food assistance programs followed by the farm support programs.

Mandatory spending in the food assistance area covers both Food Stamps and Child Nutrition. The 2002 budget proposes no major changes for either of these programs. The current services outlay estimate for 2002 is $20.9 billion for Food Stamps and $10.3 billion for the child nutrition programs. These estimates are driven by the cost of the food benefit and the number of anticipated participants in the programs.

Farm support spending carried out through the Commodity Credit Corporation (CCC) is estimated under current law at $13 billion for 2002, down from $20 billion estimated for 2001 and $32 billion in 2000. The reduction in 2002 primarily reflects the effect of emergency supplemental appropriations that added an average of over $8 billion per year to CCC outlays over the past 3 years. Outyear estimates also decline as market conditions are projected to improve and reduce the assistance provided by ongoing safety net provisions like marketing assistance loans and loan deficiency payments.

Since emergency appropriations are not part of the ongoing mandatory program they have not been projected in future years. However, I would stress that spending on farm support programs is highly variable and difficult to predict since it is so dependent on market conditions and weather. In fact, the President's budget proposes the establishment of a contingency fund of nearly a trillion dollars for use in dealing with unexpected and difficult to predict needs or necessary programmatic reforms which may emerge in the future and for which adequate resources cannot be readily found by reforming other activities. Assistance to farmers will be one of many potential uses for this contingency reserve.

Along with the contingency provision for which it is too early to determine precise needs for any additional farm assistance, estimated CCC farm assistance under current law is projected based on the following assumptions:

• Major provisions of the 1996 Federal Agriculture Improvement and Reform Act of 1996 (FAIR Act) are assumed to extend beyond 2002 in accordance with conventional budget rules. Supply/use conditions as of October 2000 are used for estimation purposes and normal weather is assumed.

• Production flexibility contract payments would be reduced, as provided by the FAIR Act, by $1 billion from FY 2000 to $4 billion per year for FY 2001 and FY 2002 and beyond.

• Marketing assistance loan rates are frozen at their maximum rates for the 2001 crop but are assumed to be adjusted per formula provisions for the 2002 crop and beyond.

• Emergency and disaster assistance provided by the Agriculture Risk Protection Act of 2000 (ARPA) and the FY 2001 Agriculture Appropriations Act are assumed to apply only for 2001.

• Dairy price support is extended until the end of calendar year 2001 and then is replaced by a recourse loan program.

• The Conservation Reserve Program's 36.4 million acre cap is assumed to extend through the outyears.

• The Department's major export promotion and market development activities are continued at or slightly above their 2001 levels. These include CCC export credit guarantees, the Cooperator and Market Access programs, and the Export Enhancement and Dairy Export Incentive programs.

In conjunction with support to farmers provided by CCC, crop insurance reforms enacted in ARPA meet the administration's objectives for improving the crop insurance program. These reforms should help reduce the need for natural disaster related crop loss assistance in 2002 and beyond. In addition, as I indicated, the administration will propose legislation to allow farmers and ranchers to reserve a substantial percentage of their net farm income in tax deferred accounts, known as Federal Farm and Ranch Risk Management (FFARRM) accounts, that could be drawn upon during time of financial stress.

With respect to other aspects of the farm safety net, I recognize that there are ongoing weaknesses in the farm economy. We are closely monitoring the situation, but we need to wait and see how crop and market conditions develop over the coming months. We are aware of concerns about farm financial conditions which may require additional assistance if uncertain market conditions worsen or do not improve soon. That is one of many reasons the administration proposed budget reforms are to include an explicit contingency reserve. We will work with Congress to assess further needs for farm assistance and will take other appropriate measures, such as pursuing an aggressive trade policy and improving the effectiveness of our current programs, to move the sector toward greater reliance on the market based economy.

There is currently a wide range of ideas being discussed for policy reforms over the longer term. We are reviewing the report from the Commission on 21st Century Production Agriculture, and House Agriculture Committee Chairman Combest has taken an important step toward establishing a framework that encourages commodity groups to work together to develop proposals for the future. We look forward to working with the Congress and other representatives of the farm sector on these important issues.

Chairman NUSSLE. Thank you, Madam Secretary.

First off, before you have the opportunity to leave, there's been some concern from producers about the way that the USDA has handled responses to concerns or complaints to specific key studies. I will give you what my staff has put together, just random issues that constituents have asked about. Really, they have not felt like the Department has given them the kind of response that they need.

I don't get that from so many of the other departments. That's why I want to raise it to you now while we have the opportunity to take a new look at the Department. Also another one that quite honestly my calls are running very heavily right now is on the issue of the pork checkoff and the decision that was made. It's another one of those areas, particularly in Iowa, that has been very concerning.

So I throw those out to you not because you necessarily handle them yourself, but because you inherited them. And I want you to be aware of them, because I think it's important, as you begin to restructure the Department and look at some of the reforms.

As you look at the reforms, let me just ask you a question that farmers ask me back home. That is, did Freedom to Farm fail? Did it fail, if it did fail, is it because it was not properly implemented, or with a full partnership on behalf of the former administration? Is it because the markets overseas just were too difficult and collapsed under the weight of the currency collapses that we saw in the Far East in particular? Was it our failure with regard to expanding our trade, tax, regulatory changes that were part of the promise of Freedom to Farm?

As we go in, as we're sitting on the threshold of this debate of farm policy and the whole safety net, what is your take, as someone who has obviously carefully watched this from a number of perspectives over the last 10 plus years, just watching the last three Farm bills in particular, what is your take on what has happened with our current safety net program?

Secretary VENEMAN. Well, Mr. Chairman, I don't believe that Freedom to Farm has failed. But I do believe that many of the factors that you mentioned were, at the time Freedom to Farm came into effect, anticipated to be part of the overall package that would assist the farm sector. As you mentioned, it was anticipated that

we would be opening up markets, but we have not been able to make significant progress in furthering the next WTO round. We haven't been able to get trade negotiating authority in the last few years.

We continue to have a number of trade disputes with various countries. We have some promise of opening up China's market once we get the accession agreements completed with China to move them into the WTO. You mentioned taxes. I think all of the tax initiatives that the President has proposed would be of assistance, and they were talked about during the discussion of the 1996 Farm bill as well, whether it's the farm accounts that I discussed in my opening testimony, or estate tax relief.

And clearly, income tax relief, marriage penalty relief, child care deductions, all of those things help agriculture as much as they help anyone else.

You also mentioned regulatory relief. Farmers are under tremendous pressure with more and more regulation impacting the way they do business. We have to take a reasonable approach, a common sense approach to regulations, and they must be based on sound science. And we have to have programs that work in partnership with producer groups and with scientists that help farmers understand the best management and the best farming practices.

I want to go back to a couple of the things that you said in the beginning with regard to the complaints of delivery of services. You referred to the time I served with Secretary Madigan. During the time I was Deputy Secretary, he asked me and Congressman Stenholm and then Congressman Roberts to conduct a review of the way services were delivered to USDA constituent groups, to look at our office structure to determine how we could more efficiently and effectively deliver those services.

Much of what that study contained then became the basis for what was used to determine the reorganization that was done early in the Clinton administration, while Secretary Espy was there. I still believe that there are a number of things that we still need to do to make sure that delivery of services is being done in the most effective and efficient way possible, whether it's making sure that our agencies are working together in the field, computer systems and technology, or the e-filing of forms. All of these things need to be looked at with, as you say, a top to bottom review to make sure that we are effectively delivering programs to our various constituent groups. We intend to make that a priority of this administration.

Chairman NUSSLE. So some type of top to bottom review, similar to what we've heard from the Defense Department, certainly it's a little bit different type of national security interest. But certainly, no less important.

That would not be out of the question as far as you're concerned, as you begin your tenure?

Secretary VENEMAN. No, it would not. And as I mentioned, it's something I was very much involved with in the Madigan administration of the USDA.

Chairman NUSSLE. Thank you. Let me ask you, too, I also have had the opportunity to talk to senators and representatives, our chairmen of the Ag Committees. There is some both public and pri-

vate support for and interest in moving possibly a portion of the Farm bill reauthorization and reform as early as this year. Senator Lugar and Senator Combest both have indicated that all or part of the Farm bill debate could possibly occur and maybe even conclude this year.

What would be your position on that, and would the administration be willing to assist us if we can expedite that debate? Part of the context I want you to have for this is that the emergency format that we have been under over the last 3 or 4 years is, it just can't be sustained. We can't continue to do this. Our farmers don't want it this way. And the kind of political bidding war that I can describe for you and that we can all describe that we had to go through over the last couple of years has been, I think, fiscally irresponsible.

So to try and figure out a framework that is not only responsible to all taxpayers and allows them to understand the importance of agriculture in their daily lives, but also is more predictable to our farmers and our ranchers and our producers out there is something that I hope we look toward achieving. Because the current method of just putting this off and allowing the emergency or the supplemental fund, the contingency fund to work this out, I've got to tell you, there is more, and I've had the conversations, there are more requests for the contingency funds than there is money in the contingency funds. And it starts with everything from agriculture to defense to more tax cuts to you name it. And they're all worthy to consider.

But in an era of surpluses, we have a mentality around here that we're going to have to come to grips with. And I would just encourage anything that can be done to push up the reforms to get our arms around this. Otherwise, the feeding frenzy that's been occurring will not be quenched by yet one more emergency supplemental. I just ask your opinion on that strategy and what the administration might be willing to do to help.

Secretary VENEMAN. Well, certainly we're always going to be willing to assist the Congress with the legislative packages that they're working on. I have been saying that while I thought a considerable amount of work would be done this year on the Farm bill, I did not anticipate that it would get done until next year. Now, if the Congress decides that they want to move that up, certainly, as I said, we would be willing to assist. But the administration has not taken a specific position on the timing for the Farm bill.

I understand, very much, the need for the farmers to have some certainty. Regarding the 1996 Farm bill, the first couple of years worked very well and I think farmers were very happy. They remain very happy, at least from what I have heard, with the ability to have flexibility in planting decisions. That's one thing that farmers seem to be very happy about.

But I think this issue of certainty and predictability as we've gone through emergency bill after emergency bill after emergency bill, has become something that is a difficult issue for farmers, because they don't know how much Federal assistance they're ultimately going to receive.

Chairman NUSSLE. Well, with both chairmen of the Ag committees, and with now the chairman of the Budget Committee and

many other members, I think with our interest in this, I would hope that the administration would at least consider, as it sounds like you will, expediting that and doing whatever you can to assist in that, and maybe moving your strategy up slightly as well. Because we just, this is an issue that is not going to go away just by one budget cycle passing us by.

Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

Secretary Veneman, let me explain to you what we're struggling with. We don't have before us, in your budget, the Department of Education's budget, enough detail yet to really pass analytical judgment on the adequacy of this request. All we have are the aggregate numbers. In agriculture, the aggregate numbers are like this: for this year, the current budget year, 2001, U.S. Department of Agriculture was appropriated $19.4 billion for appropriated programs.

The Bush budget, the one we have before us, requests $17.9 billion. That is a cut of $1.5 billion before you count for inflation. If you count for inflation, if you try to keep the amount appropriated constant in purchasing power, then the Department, according to CBO, needs about $19.6 billion.

You're 8.6 percent below that level. And number one, we don't know where those cuts are coming from. I really doubt that the Ag Committee or the Appropriations Subcommittee is likely to make cuts of that magnitude. And number two, we're concerned that if they can indeed make those cuts, we'll see our budget beginning to edge upwards and miss the targets that we set in the budget resolution.

Here's a chart that explains part of our problem. If you look backwards to recent history, it's what the Commodity Credit Corporation has paid for various program payments, loan payments and deficiency payments and flex contracts. It was a substantial amount of money, around $30 billion, as recently as the year 2000, less than that this year. And in the out years, all of the out years that are the focus of your budget, it is substantially below recent history.

How do we get there, or indeed, can we get there from here without major revision in the program?

Secretary VENEMAN. Congressman, your question really has two parts. One is about the discretionary side of the budget and one is about the mandatory side. On the discretionary side, as I mentioned in my testimony, this budget is down from the year 2001. But most of that additional money in 2001 that is not included in the 2002 budget is from emergencies and was provided in supplemental appropriations last year. The money was for specific things such as extraordinary fire fighting costs.

The FY 2002 budget is about 5 percent above the year 2000 budget, which is about in line with inflation. So if you look at a chart, and I don't have one with me to show you, but if you look at a chart, fiscal year 2001 was an unusual situation because of all this additional emergency money that was included.

With regard to the mandatory side or the CCC outlay side that you have displayed on the chart there, the prior years up to 2001 all include additional mandatory funding payments, CCC outlays,

for farm programs that were added as emergencies. As we were just discussing with the Chairman——

Mr. SPRATT. These were valid and bona fide emergencies. Weren't people struggling in farm country? Wasn't this kind of a salvation for them?

Secretary VENEMAN. I'm not saying whether they're valid or not. They were valid emergencies. But the issue here is that the budget assumptions at this point do not assume emergency money. Rather, the emergency situation or potential is being dealt with in this nearly trillion dollar fund. So the projections for the outlays shown on your chart don't take into account what may be appropriate for emergencies that may arise from this crop year.

Mr. SPRATT. Our concern is that the emergency money didn't come just last year, but over the last 3 years, it's been close to $9 billion each year, $27 billion for 3 years. And it's sort of strange credulity to think that all of a sudden, we're going to drop from an $8 billion a year emergency assistance to farmers to nothing at all except for the contingency fund.

So when the Chairman asked you about Freedom to Farm, I think we'd ask the same question, did we cut so deeply in Freedom to Farm that we had to come back and provide these emergency payments for whatever reason, just to help farmers make ends meet in a particular crop year? It looks to me like that's what happened. I don't think we've corrected the underlying problems.

So it would seem to me that these payments are likely to be recurring, unless something dramatically improves with commodity prices.

Secretary VENEMAN. I believe that we will have the opportunity with the next Farm bill, the 2002 Farm bill, to look at all of these issues. It's a fact that under the 1996 Farm bill, a large amount of additional emergency money had to be appropriated. So I think that is why the Chairman is suggesting that we need to look carefully at timing for all of this.

But the fact of the matter is that virtually everyone who's talking about the next Farm bill is looking at ways that will avoid the need to deal with emergencies year after year after year.

Mr. SPRATT. Let me just comment on the contingency fund, because even if you go to 2002, if the changes in the law require more money, it's not really provided for in this budget in the out years. And you mentioned the contingency fund a minute ago as containing almost $1 trillion.

On page 186 of the blueprint of the budget, there's a contingency fund of $842 billion. Last week, as we probed the derivation of that contingency fund, we found that it included $526 billion in the Medicare trust fund, the surplus net trust fund. Consequently, the real balance in that fund, if we indeed resolve not to spend the Medicare surplus, is $316 billion.

Out of that you've got to provide for a probable plus-up in defense, prescription drugs under Medicare, substantial plus-up in education, as the Chairman said, there are more requests for those funds than there are funds available. So that's a concern of ours, too, that you're kind of pushing this problem forward to the future with the revision of the law, but when you get there, you'll prob-

ably need the extra funding, and it's not there. It's not there in the contingency fund.

In the other reserve fund that the administration has set up, the National Emergency Reserve Fund, it's $5.6 billion provided in 2002, but this falls well short of the historic average that we've spent on emergencies over the last 10 years.

Now, granted, some of that money for emergencies was not really an emergency. We called it that to get around budget strictures.

But nevertheless, the average is pretty high. We've appropriated substantially more than that.

So that's our concern, that you've got a very, very thinly funded program here, and if it turns out that farm needs are greater or commodity prices are less, the revision in the Farm bill costs more, the budget is out of whack. Would you agree with that?

Secretary VENEMAN. I'm not prepared today to really get into the Governmentwide calculations that have been made. I hope that you would have that conversation with Mr. Daniels.

I think it's also——

Mr. SPRATT. I heard that as an appeal for help.

Secretary VENEMAN. No, I'm not arguing that at all. I'm just simply saying that I'm not prepared to discuss the Governmentwide assumptions that were made in this budget today. I also would like to point out that what was released a couple of weeks ago is a blueprint. It does not provide at this point the specific budget details. The target date for releasing the more detailed budget is around the first week in April.

Mr. SPRATT. I understand that. The problem is, we are scheduled to mark up on March 21st. So we've got to make the most with the details we've got. I think from our discussion, you can understand our reservations about this particular request.

Thank you very much.

Chairman NUSSLE. Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Madam Secretary, congratulations on your post. Thank you for being here. I hope you're still glad to have the job, after having to undergo what you have to sort through over the next several months.

Certainly no one, I don't believe, can be satisfied at where we have been in recent years with farm policy. From the farmers' standpoint, they are very dependent upon Government payments. I think I saw recently that more than half of farm income came from Government payments last year. They would, as the Chairman said, certainly much rather make their money from the market. They and their bankers cannot make decisions while they wait to see what we do each year.

The other side of it, from this committee, it's costing a lot of money to make these payments, and we're not solving the problem. The money that we're paying out is just keeping people alive from year to year. But it is not going to really solve a problem, make it better, I don't believe, over the long run. I mean, it's better that they're staying in business, but it is not getting at some of the fundamental problems.

And then, particularly in recent months, as farmers have had to cope, as much of the country has, with higher energy prices, I think

a lot of farmers are starting to doubt whether there is any chance in the foreseeable future of making a living off of the market. And rather than looking at the payment side from the Government, as Mr. Spratt was just doing, I wonder if we've got some even bigger fundamental changes going on, where the world market. Because technology has improved production here, technology has improved production in all these other countries. They have lower input costs in other countries, so their prices are going to be low.

You know, if can we make a living off the market is a much more fundamental question that maybe we have to think about.

I hope you can make me feel better. But things do not look particularly promising for the foreseeable future, it seems to me, do you agree?

Secretary VENEMAN. I would absolutely agree that it's been a difficult time in the sense that prices have been down, and as you indicate the cost of inputs, particularly energy, has been rising, with a significant impact on agriculture. We're seeing particularly the impacts of higher fertilizer costs due to natural gas prices increasing so much. When I was in Wisconsin last week, they were talking about the difficulty in their greenhouse industry with the gas prices. Certainly the difficulties in California with the energy shortage will have a significant impact on agriculture, whether it's irrigation, electricity, cold storage, processing capacity, whatever.

So I would agree that there are a number of issues that are larger issues that we're facing in this country that are having specific impacts on agriculture. I think a lot of people don't think about this aspect of the energy problem.

I think it's also important that we continue to try to open up markets. Ninety-six percent of the world's population lives outside the United States. We have some of the most productive agriculture in the world in this country. We want to make sure we have the opportunity to export and have access to as many markets as we can around the world.

Mr. THORNBERRY. Well, I just want to join with the Chairman. I think if we can look at rewriting the Farm bill in a way this year that can help us break out of this cycle that we've gotten ourselves into, I think we ought to take advantage of it.

Let me ask just about one other area. As someone who is personally involved in the cattle business, obviously food safety is a key interest, not just for those of us involved in agriculture, but obviously, everyone who consumes agricultural products as well. Can you talk a little bit about where we are with some of the food safety concerns that are going on, the ban on imported meat that we've seen recently, and is the Department's budget adequate to ensure that American consumers and American industry have a safe supply of food?

Secretary VENEMAN. I appreciate very much that question. Food safety is a very, very important question and issue in our Department, and we work closely with HHS and the Food and Drug Administration. We want to continue to work closely with them to make sure that our policies are very closely coordinated, because we do have one of the best food safety systems in the world in this country. And we want to maintain it.

As far as what has been happening recently, I think it's important to point out the issue that has been in the news in the last 2 days, our temporarily banning the import of live animals and meat products from the European Union, is related to a disease called foot and mouth disease. It is not a food safety issue. It is an animal disease issue, but a very, very serious one. We have not had foot and mouth disease in this country since 1929.

It can be devastating to livestock herds. It spreads very quickly, and it's a very, very serious animal disease. We want to make sure that we take every measure to ensure that it does not come into this country.

In addition to the 20 veterinarians we already sent to assist Europe in combatting this disease, we're sending another 20, for a total of 40. We are beefing up our inspection at the airports and the ports to ensure that we do not have any breaches of the security. Because this can be carried on clothes of people that have been on farms or particularly their shoes, we are increasing public awareness about this problem. We're working with the airlines to make sure they will have information on airplanes, so that travelers will understand what the issue is all about, that it's a risk to our livestock and not a risk to human health.

That raises, I think, another issue in addition to food safety, which is how important our animal and plant health inspection systems are in this country. We have continued to maintain levels of funding that will ensure that we can fight pest and disease programs for any kind of threats or any kind of infestations that we have. That's been a big issue.

We've also heard a lot of discussion about BSE, another animal disease that has impacted Europe quite substantially, which is also a human health issue. Both on the food safety side and on the animal and plant health inspection side, we have increased our surveillance. We have increased our testing, and we are working very closely with our research organizations to ensure that we don't get BSE in this country as well.

There are a number of other food safety issues that we continue to work on, but both of these issues, both the food safety side and the animal and plant health inspection, the prevention and eradication programs are extremely important in the mission of the USDA.

Mr. THORNBERRY. Thank you.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

Madam Secretary, I appreciate your being here to testify today before this committee. I'm from Kansas, which is out in the center. On September 27th, 2000, the Farmers Cooperative Association, which is the largest agricultural cooperative in the State of Kansas, filed for bankruptcy. This action left 875 farmers facing considerable losses, farmers who had placed their product in these elevators.

We discovered that in 1984, Congress authorized a limited priority in bankruptcy proceedings for grain producers, and under the provision, unsecured creditors are conferred fifth priority for priority claims, capped at $4,300 per producers. For claims exceeding

that amount, the farmers have a general unsecured claim and most likely would suffer a loss.

This is the worst case scenario, and is what happened to most of the farmers in our State that delivered the grain to the elevators and have not yet been paid. These farmers again, in excess of the $4,300 cap, are totally unsecured. This is a problem I believe Congress should address.

The situation has improved since the buyout plan to FCA that at this time includes payment to the Kansas farmers. But it will likely take several months for that to happen. In the meantime, the farmers are kind of left hanging out. They are operating under extremely tight budgets due to low commodity prices and soaring costs for energy and fertilizer. I think everybody is aware of the plight of farmers in this country. They need help now. They need funds now in order to meet their cash flow needs.

On February 27th of this year, Representative Jerry Moran of western Kansas and I wrote a letter to you and the Department, seeking assistance and emergency loans for seed producers program, funds or other loans that will be vital to help these farmers remain in production.

Madam Secretary, I just was now handed by my staff a note that we got a call from USDA today, I believe, and according to the Farm Service Agency, our farmers are not eligible for the ELSPP loans. There are not specifics that are known to us at this time, and the person who gave us that information did not say why they're not eligible.

I wondered if you would be willing to check, or people at the agency to check, to see if there might be other interest-free or other loans available to help the farmers who really are in a desperate situation in Kansas. I would ask that you look into that for us.

Secretary VENEMAN. I am not familiar with the particular situation in Kansas, but we will certainly do anything we can to assist in trying to determine what programs might be available for these farmers. Although I don't know about this issue, I do know about the farmers that are experiencing a very similar thing in California with the bankruptcy of the TriValley Cooperative. So this is an issue, I think, where farmers really face a lot of hardship when this happens. I've talked to a lot of farmers in California personally about some of the hardships that they're facing.

Mr. MOORE. Thank you very much.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman.

Madam Secretary, welcome to what I hope will be a very fruitful time for you as Secretary.

I want to start right off by thanking your Department, if the indication of the way you started with a particular concern that I had is any indication of how you'll govern in the next 4 to 8 years, you're going to be very successful. I'm talking about the apple Market Loss Program that unfortunately was not even started with the last administration. By the time you got on board, your Department moved extremely fast to get this program put into place. That

was very important to the growers in my district, and I want to thank you publicly for that as this process moves through.

I was also very pleased to hear you emphasize on several occasions in your statement but also in response to members' inquiries regarding the need for expanded trade, the growers in my area, and I might add, my district is in Central Washington, I dare say it has probably as diverse an agricultural mix as the Central Valley in California. We say that very proudly. We'll never catch up with you with premium wine grapes, but when I say premium, we're right there.

Nevertheless, all the growers in my district, they're non-program products. But they're hurting, and they're trying to find other avenues to try to take the pressure off. Obviously, one of them is trade. Once you talk about trade, that's generic in nature, but you get down to specifics, and we have one specific one that is probably an example that a lot of them face, and that's with apples in South Korea.

Specifically, they have the phytosanitary arguments that we can't get our product in there, yet we allow them unfettered access to our markets. Even if they were to raise or eliminate the phytosanitary arguments, you'd still be facing a barrier of about 48 percent of tariffs. I mean, this is a very unlevel playing field.

So I want to commend you for keeping the pressure on as far as expanding markets. I would invite you to look at a bill that I've introduced, Market Access Program. It's H.R. 98, it expands that program with more funding, which has been very successful, especially with a smaller crop.

Finally, I just want to talk, again going back to these specialty crops, and some of the different needs that arise that aren't covered in a broad sense within USDA. One of them is, as I mentioned, apples. Apples are hurting. I have one particular county in my district where they anticipate over a third of the acreage in apples will be pulled out.

Now, they're being pulled out because obviously the grower can't make any money. If they can't dispose of those trees that are pulled out or if they're left abandoned, then those trees become agents for pests that will invade other healthy orchards. The counties obviously can't pick up the tab on that. And we've been exploring ways that maybe, you mentioned in your testimony some programs to help in areas like that.

I would just ask you if you'd be willing to pursue something like that. Because this is a huge, huge cost to not only the local governments there, but to the growers that obviously can't pull out their orchard. Would you care to comment on that?

Secretary VENEMAN. I was not familiar that that amount of acreage was being pulled.

Mr. HASTINGS. It's one county. I don't want to say it's a whole—just in one county.

Secretary VENEMAN. Oh, one county.

Mr. HASTINGS. Just one county. I don't want to say it's the whole industry.

Secretary VENEMAN. Obviously people don't recognize that when you pull permanent crops, it does have an economic impact. I know, I just heard 2 or 3 months ago that the pear growers in California

are undergoing a similar program. I believe, I'm not certain this is exactly the way it's working, but I believe that they're putting together a pool of money from all the pear growers to assist in the payment for the tree pull and disposal of these trees. Obviously that's a self-help way to do it.

I am not familiar with specific Government programs that would assist the local governments in dealing with this disposal program, but we'd be happy to explore what may be available.

Mr. HASTINGS. OK, good. Well, obviously, this is something that I haven't experienced and I daresay many counties in my area have not experienced either, because you don't want to see an industry leave.

Finally, one way to alleviate the pressure of specialty crops is to purchase excess commodities. Do you anticipate, within the Department, of purchasing any excess commodities for food relief in other areas that would take some of the pressure off? Is that being planned?

Secretary VENEMAN. Well, certainly the AMS has traditionally purchased more of the specialty products and processed foods for the school lunch program, and those programs are continuing to operate. I don't anticipate change in those programs. So I would say those programs will continue to purchase excess commodities.

Mr. HASTINGS. OK, good. Well, thank you very much. You certainly have a challenge ahead of you. I am one that again, represents a rural area where people involved in agriculture, all they want is a level playing field. And I am doing everything I can. That is long-term. It's the short-term problems that we have to address.

So I certainly look forward to working with you, if we can resolve some of those problems. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Before I recognize Ms. Hooley, let me welcome our newest Budget Committee member, Mr. Matheson from Utah. We welcome you. We are now at full strength on the ice, as they say. So we appreciate your service, look forward to working with you. Welcome.

Ms. Hooley.

Ms. HOOLEY. Thank you, Mr. Chairman.

Madam Secretary, welcome. I look forward to working with you.

I too come from a rural community, Mid-Willamette Valley in Oregon, some of the best farming land in the entire world. It seems like every year, we have a new crisis of one sort of another. And I looked at this budget, and knowing how much we have spent on emergency funds in the last 3 years, the last couple of years it's been almost $20 million.

My question is, before you get to reauthorization, what was the thinking of not including additional money in the agriculture budget, not including that emergency fund that's been ongoing? I mean, it may be one emergency 1 year, the next year it's another emergency. At least in my district, anything from grass seed growers to this time where you now have some of the food processing plants that have gone out of business unexpectedly. Particularly for those farmers that have the soft berries, the small fruits, strawberries, raspberries, blackberries. I mean, this just kills them.

There's no way you can safely ship, I mean, you can blueberries, but you can't ship those small berries. So again, we have another dilemma on our hands.

And you look at the almost depression-like prices for all of the commodities. I am really surprised that they didn't fold that emergency money into the budget. And do you expect to be submitting some kind of supplemental budget to this Congress shortly?

Secretary VENEMAN. Well, again, the more detailed budget will be released in early April. However, on emergencies, it is difficult to predict them. I think the Congress has generally acted on the emergency legislation in the late summer, they've begun to look at that to see what the emergencies are, what's going to be necessary.

I might also add that, as I mentioned, there is money included in this contingency fund, this nearly trillion dollars, and it is anticipated that for ag emergencies of the type I think you're discussing, that would be addressed by that fund.

The other kinds of emergencies that often affect specialty crops, of course, are some of the things that I talked about in response to my previous question, which is pest and disease prevention and eradication. And we have fully funded the ongoing situations that we have, whether it's citrus canker or medflies or so forth in the budget itself. We also have the ability to take money from the CCC on a temporary basis for true emergencies that may come up in that regard as well.

Ms. HOOLEY. And I guess the real question, one of the things I just puzzle over is, when it's been consistently running around $9 billion a year, and the last couple of years I think it's been $10 billion a year, that's been consistent. And I guess what I have a problem with is why we haven't looked at some of those issues and built that into the budget.

Secretary VENEMAN. I understand what you're saying. As I discussed before, it is difficult to anticipate a disaster this early. Therefore it was not built into the budget at this point in time.

I might also add, regarding some of the kinds of crops that you're talking about, that this budget does anticipate the full funding of crop insurance reform. Some of the types of products you're talking about would be eligible for some of the crop insurance provisions under the reforms.

Ms. HOOLEY. So you don't see President Bush intending to change the crop insurance program?

Secretary VENEMAN. The budget includes the crop insurance reforms that were passed last year, and fully funds them.

Ms. HOOLEY. OK. Couple other just quick questions. Our USDA, our county offices, you talk about reforming those. One of the problems has been that, right now, there are not enough people in those offices to do the job.

And again, as each issue and problem comes up, they have a larger, larger workload and less and less people. As you look at reforms, what are you talking about that would help that situation? And are there going to be further cuts, so that you have fewer people to deliver the services to farmers?

Secretary VENEMAN. I do understand that we have had, in the last few budgets, more and more disaster type programs, which require signups, require additional workload on FSA employees. And

we know that there has been tremendous pressure on those employees, and we certainly appreciate all the hard work that they've had to put in.

There has been provision allowed for temporary work force to help with some of these emergencies. But some of the reforms that we're talking about extend beyond just looking at the FSA, but also looking at how our programs integrate in the field. Do we have NRCS programs and Farm Service Agency programs that are integrating, and are people working together in the delivery of those services, and risk management programs as well?

We also want to look at ways that we can use technology to more efficiently deliver our programs, whether it's online forms and signups and use of the computer systems. But I think there's great opportunities there that would help with the workload that you're talking about in some of our county offices.

Ms. HOOLEY. I look at some of our farming communities and the workload that they have, and there's one person in the office and then some temporary help. I mean, even if you've got the best technology in the world, you still have to have people in the office willing to talk to people and using the technology. I just worry, as you look at streamlining these, I don't know how you can cut any more people from some of these offices. And again, that's a concern of mine.

Thank you.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

I want to come back to a couple of points that have been made. I do like this chart over here and I think it's very accurate. Mine isn't as big, but I do want to call attention to the fact that essentially that chart is correct. But if you went back just a few years pervious to that, I'm told, and I thought I was correct in this and I confirmed it with Dr. Collins, Dr. Keith Collins, Chief Economist for USDA, who is here, in 1995, the total CCC outlays dropped to as low as $4.5 billion.

Frankly, if you look at that chart, Madam Secretary, and this is why, I don't know, the more I've learned about agricultural policy, the more confusing it becomes. The one thing that comes through crystal clear is that the great farm economist Johnny Cash was correct. He said, everything changes as well it should, the bad ain't forever the good ain't for good.

And it does strike me that long term, what we really need to do is come up with a farm program that is counter-cyclical, that will take some of those bumps out, which is why I've come to the conclusion, about the only thing you can really do long term that makes sense, at least to me, now, I'm just an amateur here, but it seems to me, we've got to come up with some kind of a revenue insurance program, where the farmers participate, the Federal Government participates. Because we can all sit around and say, well, the farm program failed, the farm program failed, and we've had all these, since 1934 we've had something like 17 different Farm bills. All of them worked well for a couple of years and all of them, the market figured out a way to beat them.

But it does strike me that, there's got to be a better way to come up with a more predictable program in terms of the overall cost to

the taxpayers of having a farm program that guarantees that we have an adequate supply of food at reasonable prices, and that also allows farmers, the efficient and the productive ones, the ones who deserve to make a good profit at it, should have a right and an opportunity to make.

I agree with Mac earlier, he said that the problem with our farm program right now is we're hanging on by the fingernails, an awful lot of our producers. We ought to have a farm program long-term that allows people to thrive. It's not enough. And a strategy that's built around just having a survival mentality, it seems to me, it's not a good one.

So I mean, I agree with Mr. Spratt's chart and I hope that we can come up with a better plan. I guess my real question for you would be, in the last administration, I don't mean this be partisan or political, but as we talked about the Farm bill, the administration was really more like passive observers to discussion rather than helping to lead the debate. My question for you is, do you intend to be an active participant in developing the next Farm bill, or do you intend to react to what the Congress presents?

Secretary VENEMAN. I was in the administration and worked on the 1990 Farm bill. The administration was a very active participant in the discussions around that Farm bill. And I would hope that we could do that again.

But certainly, I agree that we need to look at various kinds of opportunities to make farm policy that makes sense for the future, that takes into account a changing structure of agriculture in this country, that takes into account all of the different kinds of issues that we are now dealing with, whether it's animal diseases or food safety. These are not new issues but they've come to the forefront much more. We hear a lot more about the environmental issues and the regulations.

I think as we debate farm policy, we just can't look at it in the context of the budget for farm programs, but in the whole context. We need to look at what we're going to do about opening up markets and trade, and how the trade programs interact with all of this.

So I think that the debate on all of this needs to include a discussion of all of the issues and not just the farm programs in and of themselves.

The other thing that I think we need to recognize, and I talked a little bit about this in my outlook speech this year, is the fact that we have traditionally, as people in Government, whether it's the administration or the Congress, had various interests coming to us and saying, we want this, we want this, we want this. I encouraged in that speech that the food chain ought to be working more closely together to come up with comprehensive policies that are in the best long term interest of our food and agriculture systems in this country.

So I've sort of challenged people, both in the food processing sectors and the retailing sectors as well as in agriculture, to try to work together to look at some of the farm policy issues. I say this with examples such as livestock price reporting last year, where the producers and the processors got together and came out with a compromise that was acceptable to both. Or biotechnology, where

you've seen the whole food chain working together on these issues. Or the group that got together that included most of the producer groups and the processors and a variety of other groups, input groups on the position they wanted agriculture to take prior to the Seattle meeting that took place in December 1999.

So I think there's great opportunity in this regard. I would hope that we can all encourage the so-called food chain to come together and really look at these farm policy issue, it's something that impacts everyone, and find solutions that are those that will be the most beneficial for the future.

Mr. GUTKNECHT. Mr. Chairman and Madam Secretary, my yellow light is already on, and I want to at least publicly welcome, we've got a group from Minnesota, the Minnesota Agricultural Rural Leadership Program is here today. On behalf of particularly some of those younger dairy farmers back in Minnesota, we strongly support opening markets. But one of the real thorny subjects we're going to have to resolve here in the next year is the idea of opening markets to places like Vermont. [Laughter.]

The notion of dairy compacts, and my friend from New Hampshire here takes a somewhat different view.

But it seems to me if we're going to really be serious about opening markets, and I think we have to, because ultimately, America's farmers can compete with anybody in the world. But we've got to be honest with the way we deal with markets here in the United States as well.

I do believe we as a Federal Government have a responsibility to open new markets, both internationally as well as domestically, and that's also part of research. So we want to work with you. We want to come up with a plan that levels out those bumps for those of us in the Budget Committee. I think it can be done if we will look outside of the box a bit. Thank you very much.

Chairman NUSSLE. Thank you, Mr. Gutknecht.

Let me just report to members that the Secretary has asked, and I have tried to do this with others as well, to leave here in about 15 minutes. She has a plane to catch, she has business to attend to. We have a number of members that would like to inquire. What I would just ask is that you do the best you can to keep within not only the 5 minutes, but even if you could do less than that so members can ask questions.

Mrs. Clayton. I always do this right when it comes to you, and I apologize.

Mrs. CLAYTON. Yes, it's good you recognize that. I'll keep in time. But thank you, Mr. Chairman. I appreciate the time.

Welcome, Secretary Veneman. I am delighted to have you before the Budget Committee. I must say, as a woman, I'm delighted to see you there. It is evidence that women are indeed in agriculture. Sometimes we don't think of women in agriculture.

And as someone said earlier, I think you will like your job as well as you like it now after a year or two from now.

Agriculture is indeed demanding, and appreciated, but it's also complex. I believe some of the background you are hearing is that the appreciation from those of us who are on the Agriculture Committee, as I am, also, those who are from rural communities, as others may be, have an appreciation for the Farm bill, which I

think people look too much to this is true because it sometimes is not the planning document that it could be or should be. Nevertheless, it is a tradition. As a tradition, the farm community will look toward that as the kind of bible or guide. So hopefully, we can put some things in perspective. That is so critical.

I have written to you on the subject, and you should not be surprised, that I will be talking to you about it, the black farmers. African-American farmers have not traditionally benefitted well in the loans and programs that the Agriculture Department has administered. It is the department that was considered to be the people's department. That's what President Lincoln said of it. Yet, it is found that we're denying black farmers.

The issue I bring before you is certainly not of your making. But, it is one that you are inheriting. It's called Pigtord v. Glickman, I guess it if goes back in court it will be Pigtord v. Veneman. But, it is an issue that will continue. It has both policy issues and budgetary issues.

Would you comment as to how you plan to resolve this issue and assist those who still have legitimate complaints? I'm getting mail from people who are being foreclosed on as of now, put out of their homes, have $250,000 in loans that they have to pay back, with the promise of, almost 5 months ago, that they would have gotten their supplement. Now, they are having to live with their relatives.

What are the plans for funding USDA's Office of Civil Rights. Would you comment on that, please?

Secretary VENEMAN. Civil rights in the Department is a very difficult issue, and as you say, it's something I came into and inherited, and certainly it is not an easy issue.

We want to get all of the complaints in the Department resolved as quickly as possible. One of the things that I hope we can do is accelerate the process under which these things are looked at. I know we have a number of people on temporary assignment, complying with the agreement in the case you mentioned in an attempt to get all these cases resolved. It is a huge undertaking.

But I do want to assure you that we will not tolerate discrimination in the Department of Agriculture. We are making that clear. We intend to pursue the resolution of the cases that exist as quickly as possible.

Mrs. CLAYTON. Thank you. I do have a couple of other questions. However, I'm going to follow my Chairman's lead and do it very quickly.

The other concern is about food stamps. As you indicated, the nutrition part is the mandatory part as it relates to food stamps. In 1994, in reference to food stamp participation, we had 27 million households. In the year 2000, we have just over 17 million. Part of that obviously, is because we've had a good economy and we are thankful and celebrate that.

But clearly, the drop in the food stamp participation outpaced the drop in poverty rate as the census has reported it. For instance, only 59 percent of the eligible Americans are receiving food stamps. Those who are eligible, not 59 percent of people, but 59 percent of the eligible are not receiving it.

Then when you look at those who are eligible and are working families, then it gets to be that additional safety net of that mother

who's working and has two or three children. Of that, the percentage is even less, and that's 47 percent of working families receiving food stamps.

Can you comment on what you will outreach to people who so desperately need food for sustenance that they would know about it in terms of the eligibility, in terms of the administration? Let me put on one other part, real quickly so you can answer both of those. The difficulty we have imposed upon poor people to get pittance from our Government food, we should be ashamed. Not you, but we should be ashamed of it. When we consider this is just the applications process, in terms of how much they have to fill out to get $40 and in some instances, $50 or $100.

In comparison, take the Federal home mortgage application. If I'm trying to get a home from the Federal home mortgage, I have to do one-fourth of the paperwork that I would have to do if I was trying to get food stamps. If I'm trying to get a $250,000 home, it takes four pages at best.

On the other side, we can get to that information very quickly. Now, the Chairman and I co-chaired trafficking, in terms of food stamps. We were trying to determine how to monitor that. So we're on record saying we want to find ways where those who don't need it shouldn't get it. We wrote your predecessor a letter asking if he would put it in annual review rather than every 3 years now. Every 5 years.

First, I want to know how we can make it simple. How indeed can we instruct the States on an annual basis to reduce the trafficking and not put artificial barriers for poor people getting food assistance, when we say we want to help.

Secretary VENEMAN. Congresswoman, I don't have good answers to either of your questions today, because I simply haven't had the chance to get deeply into these issues. I've only been there less than 60 days, but I have heard this issue about the participation rates. I've seen it in the media stories, I've read it in the letters and so forth. Certainly we will look at that.

I was not aware of this issue with the applications, and we'll take a look at that as well.

I might add that the food stamp budget has increased in this budget. In the detailed budget that will be out in the next couple of weeks, you will see that there is an increase in the food stamp budget.

Mrs. CLAYTON. So we have something to look forward to.

Chairman NUSSLE. Thank you.

Mr. LaHood.

Mr. LAHOOD. Thank you for only taking 6 minutes, Eva. We appreciate it very much. [Laughter.]

I'd be happy to give you my 5 minutes if you need it, you know that.

Madam Secretary, I don't think there's anybody that's come to the job that you have that has the broad breadth of experiencing, having served in one of the most diverse States, California, and then having served in our own Government. So we have high hopes for you and what you'll be able to do.

I'm going to be very brief, because I know you'll be coming before the Ag Committees, both Authorization and Appropriations. I hope

that if, I guess let me put it this way. If I had your job, I would get up every day and figure out we can improve trade. You can talk all you want about the faults with Freedom to Farm, the ag economy has been in recession for 3 or 4 years. In my opinion, the answer is trade. We need to open up markets, we need to pass Fast Track, which our previous administration never would do, we need to lift sanctions against countries, we need to start looking at countries where we've never traded before, particularly food and medicine.

Trade is the ultimate answer. And I voted for all these additional payments. And I've had so many farmers tell me, I don't want to receive them, but I wouldn't be here today if we didn't get them. Trade is the key. And I hope you'll push this administration.

When I was down to the White House with a group that talked to the President, he talked about Fast Track. And I know he knows the importance of trade. I don't think he would have made his first trip to Mexico if he didn't believe in trade. And I know you believe in it, too, coming from a State like California and having worked in the previous administration.

I hope that from time to time, when you think about what we need to do, you'll think about trade.

I yield back.

Chairman NUSSLE. Thank you.

Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Madam Secretary, glad to have you here before the committee. I'm just going to ask you a couple of basic questions, I know our time is about to expire. But how many employees are totally in the Agriculture Department?

Secretary VENEMAN. I think we have roughly about 100,000—we have 106,000 including the county office employees, I'm told.

Mr. BROWN. And how many of those reside here in Washington?

Secretary VENEMAN. Nine thousand five hundred.

Mr. BROWN. And how many farms do we have?

Secretary VENEMAN. We have about 1.9 million farmers, according to the 1997 census of agriculture. I understand where you're going with this, and I might just add that about 35,000 of the employees are in the U.S. Forest Service, which really doesn't have much to do with the production agriculture side.

Mr. BROWN. I see. Thanks for sharing that.

I know you mentioned briefly in your opening remarks, and I would just ask you, if you would, to expand a little on your thoughts about a market driven agriculture economy versus price support.

Secretary VENEMAN. Well, as I talked about earlier, I think that clearly, the goal is to get a more market oriented and market driven policy in agriculture. The 1996 Farm bill went a considerable way in doing that, by decoupling the payments, the AMTA payments, as they're called, and allowing planting flexibility. I think farmers have responded well to those concepts. The question is, how do you address some of the other issues that have come along with it.

I certainly think tax reform is an important component. Trade is an important component. Common sense regulation is an impor-

tant component. So I think it's a combination of policies, it's not just farm policies looked at in a vacuum. It is a combination of policies that we need to look at to move agriculture in a market oriented direction.

Mr. BROWN. One final question, if I might. I know in South Carolina a lot of the farming economy is based on tobacco. I know that's sort of a diminishing return. I've listened to some of the other members question about apples, whatever else, some of those commodities. Trying to find alternative crop replacements, is that sort of a high priority under this administration?

Secretary VENEMAN. I think alternative crop replacements are an important issue. I think that certainly, we want to find ways to assist farmers making transitions in the marketplace through rural development programs, extension programs, other kinds of assistance programs that we have. That may be alternative crops, it may be better business planning practices that we can assist farmers with. It may be assistance with ways to wire rural America, so that they aren't left behind in this new technology age.

But I think all of those concepts must be considered as we move forward and look at rural policy for the future.

Mr. BROWN. Thank you.

Chairman NUSSLE. Thank you.

Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman.

Madam Secretary, I welcome you and I want you to know how much we're all looking forward to working with you for the betterment of all American agriculture. I'm particularly excited that you're from California and had some experience in the fruits and vegetables business. Hopefully we can address some issues that I think in the past have been neglected in that particular aspect of American agriculture.

To follow up somewhat on what the Chairman's remarks were about in terms of a comprehensive review of the Department's role and responsibilities, when you really look through the list of things that your department does, from home loans to school lunches, to animal and plant health, to ecotourism in our national forests, research, nutrition, farm support, trade, it's all over the map. Has anyone in the past ever conducted a strategic review, or do you intend to conduct a strategic review to really look at what the core mission of the U.S. Department of Agriculture is, and whether or not there are some programs that this body has added to that mission that may or may not be relevant or timely in 2001?

Secretary VENEMAN. Well, Congressman, I think that's a very good question. I have certainly been involved, in my previous position in California, with a hard look at strategic direction of the California Department of Agriculture. I think that as we go forward we need to continually, in any organization, look at strategic direction.

I believe, and again, I've only been here less than 60 days, but I believe that a lot of our agencies within the U.S. Department of Agriculture have been involved in strategic planning and looking at how to best administer their programs for the future. That is a priority of mine, to make sure that we continue to look very strategically at what we do.

You do point out something. I think we are one of the most diverse departments in all of Government in terms of mission. People are shocked when I tell them that the Department of Agriculture runs the food stamp program, or the national forests and that Smokey Bear works for us. But the fact of the matter is, it is a very diverse department with multiple missions.

And it sometimes makes a complete strategic look a little more difficult in terms of a single mission. Because I do think we have multiple missions, many of which are very interconnected.

One of the things that I want to make sure that we do is to recognize that many of our programs have been operated in a stovepipe type of structure. Yet many of our programs really have overlapping responsibilities, whether it's research, with almost every area of the Department, or it's the working together of rural development programs with other programs that assist in rural America, or it's NRCS and FSA and risk management. All of these things are interconnected.

As I've talked with people who may potentially come to work in our Department, I've had discussions about the importance of teamwork, working together and finding better ways to administer programs in a way that makes them more integrated and consumer or constituent friendly.

Mr. PUTNAM. I appreciate that, and I just want to draw one line of distinction, that there is a difference between a strategic review of doing what you do better and reviewing things to determine if some of the things that you do, and probably do very well, may not be best done by your Department, and there may be other appropriate folks.

Secretary VENEMAN. I understand that.

Mr. PUTNAM. With that I'll close, Mr. Chairman, and just say, I appreciate, on a personal note, all the support the Department has been to Florida on the citrus canker issue. Thank you.

Chairman NUSSLE. Thank you.

Madam Secretary, I did the best I could. I came within about 4 minutes. That's not bad. Hopefully your plane's on time and everything will work out fine.

We appreciate your testimony and your time here today, and we look forward to working with you on some of the issues that we just discussed.

Secretary VENEMAN. Thank you, Mr. Chairman. I appreciate the opportunity and I do appreciate your adhering to my rather tight time schedule today. Thank you all very much.

Chairman NUSSLE. Thank you.

We'll recess for about a minute here while we're changing the witness table.

[Recess.]

Chairman NUSSLE. This is the resumption of the Budget Committee hearing on the Department of Agricultural Fiscal Year 2002 Budget Priorities. We are fortunate to have today Representative Charlie Stenholm of Texas and Bruce Gardner of the Department of Agricultural and Resource Economics of the University of Maryland.

Mr. Gardner has been involved in a number of different endeavors throughout his career. I was just reviewing your resume, cur-

riculum vitae, and you have been involved with the Department of Agriculture, you've been a professor at Texas A&M, you grew up on a dairy farm in Illinois, which is maybe even more important to the discussion here today.

We welcome you to the Budget Committee and look forward to your testimony.

But first off today is the very distinguished ranking member of the Agriculture Committee and a good friend of this committee, former member of this Committee, as I understand, and someone who is very well known, not only on budget issues but also on agriculture issues throughout this Congress, and is well respected. We really appreciate the fact that you would take some time, we understand the Ag Committee is organizing today and you have to leave here shortly. So we'll let you go first. Your entire statement will be part of the record, and you may summarize as you see fit.

The gentleman from Texas.

STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman.

I appreciate very much your kind remarks and I appreciate this opportunity to testify before this Committee. Mr. Chairman, Mr. Spratt, I am delighted to be here.

I think it is very fitting that agriculture continues to be the focal point in our budget discussion. The current farm recession is now entering its fourth year and ranks among the deepest since 1915. This includes the agricultural recessions the Nation experienced during the Great Depression, World War II and the 1980's farm financial crisis.

I know that many of you are familiar with these figures. Net cash income over the last 3 years fell in real dollars to the lowest point since the Great Depression. Put another way, last year's prices were a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and corn, and an 8-year low for rice. With essentially no improvement in commodity prices over last year, farmers are left with tighter cash flows and serious questions about how they are going to make ends meet.

Farm debt this year will surpass $180 billion for the first time in 16 years. Farm production costs are expected to increase $1.5 billion. The impact of the skyrocketing costs of natural gas is now rippling through the farm sector in the form of higher costs for fertilizer and irrigation. Repercussions are still being felt from the Asian economic crisis.

In addition, 3 years of good weather worldwide have created bumper crops all around the globe. This has driven down prices and cut into potential markets for U.S. producers. Compounding this situation for American producers is the strength of the U.S. dollar, which has contributed to a substantial increase in relative costs of U.S. commodities. Despite some progress in lowering trade barriers through the World Trade Organization, the fact remains that the average tariff on U.S. farm products in other countries is 62 percent, while the average U.S. tariff on goods coming into the United States is around 12 percent. Additionally, the European

Union continues to outspend the Untied States on agriculture, having spent $47 billion last year alone.

It is precisely these conditions that have led Congress to provide $18.1 billion in emergency income assistance over the last 3 years. This assistance was clearly needed, and there was no question about whether or not Congress would act. That is why the Agriculture Committee has begun the process of developing legislation to provide multi-year additional income assistance. The Agriculture Committee is currently holding hearings during which commodity and producer groups make specific recommendations on what Congress can do to bolster the farm safety net. These hearings are laying the groundwork for future farm policy and will help us as we write the next Farm bill.

Given our experience, however, over the last 3 years, it is my view, Mr. Chairman, that the budget allocation for agriculture should be permanently increased, rather than providing additional assistance on an emergency, ad hoc basis. The reasons for doing so are two-fold. The first rests on the need for certainty in farming, and the second on budget discipline.

Ad hoc assistance is by its very nature unpredictable. Producers and lenders alike are understandably nervous about including any dollar figure for ad hoc assistance as they prepare cash flow calculations. The current unpredictability of assistance affects not only producers and lenders, but ripples throughout the rest of the agricultural sector. When farmers and ranchers are unsure about income, they don't spend money with retailers, input suppliers, equipment manufacturers, or anyone else.

Everyone who has testified before the Agriculture Committee thus far has requested additional amounts for agricultural spending. I am working with Chairman Combest, and I am hoping that we will eventually be able to introduce legislation that will ease the crisis. This is dependent, however, upon the provision of additional resources for agriculture. Many of you have seen the letter from the commodity and farm groups requesting $9 billion for 2002 and $12 billion for each year thereafter in the baseline.

Let me pose a question, Mr. Chairman, to members of the Budget Committee who also represent agricultural interests. Do you believe that we will provide additional spending this year for agriculture? If your answer is in the affirmative, then now is the time to budget for it.

The second reason for increasing the allocation for agriculture is the recognition of a need for a more predictable and disciplined approach to budgeting. The past 3 years have shown that Congress has the will to provide necessary assistance when existing programs are inadequate. But emergency waivers of the Budget Act have led to greater spending than might otherwise have been necessary.

For example, when included in the fiscal year 2001 budget resolution, the Committee on Agriculture spent $7.1 billion in 2000. In subsequent years, funding was provided by resolution. That was not the case 6 months later, however, when another $8.9 billion was spent under emergency declaration.

I see two major deficiencies with the administration's fiscal year 2002 budget for agriculture. One, it fails to provide a realistic

budget for agriculture, given the additional ad hoc spending Congress has provided during the last 3 years. And two, the budget relies upon an overall contingency fund that includes agriculture when the amounts in the fund are already oversubscribed.

Mr. Chairman, members of the committee, I would ask you to sincerely look at not only what I have just mentioned, but to realize that once you have allocated all of the projected $5.6 billion in so-called projected surpluses over the next 10 years, once you have allocated them, there will be no way under any circumstances that there can be emergency spending without dipping into the Social Security and Medicare trust funds.

Therefore, I appeal to you to seriously consider what all of the farm organizations, and I mean from the Farm Bureau up and down, Farmers Union up and down, have said recognizing, as I'm sure you'll hear from Dr. Gardner and others who have testified before the Committee, that the outlook for farm prices is not good. Therefore, it is predictable.

Therefore, it makes a lot of sense for us, not only in this particular area, but in the conservation programs, the wetland preserve programs, the Environmental Quality Incentives Program, as you heard Mrs. Clayton talking about the food stamp program, rural development and all of these areas, it is clear that rural America is not benefiting from the boom that the rest of America has participated in for the last 10 years.

Therefore, the administration has stated, we may need to increase spending for our farmers and maintains that a portion of the contingency fund could be used to help farmers. But claims again on the contingency fund may exceed the money available. Those of us who insisted Congress act on a budget resolution before acting on tax or spending legislation are not arguing about process or arcane budget rules. This argument is about acting responsibly to balance priorities important to our constituents.

Just as the American people deserve to know what impact the tax cut will have on the priorities that are important to them, America's farmers and ranchers must be able to predict with some degree of certainty what their income assistance will be, so that they can work with their bankers to make plans for the next 5 years. The producers of our Nation's food and fiber should not have to scramble for a piece of an over-tapped contingency fund at a time when they are at their greatest need.

Thank you, Mr. Chairman.

[The prepared statement of Charles Stenholm follows:]

PREPARED STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, thank you for this opportunity to testify today as the Committee on the Budget considers USDA's budget for FY 2002.

It is fitting that agriculture continues to be a focal point in our budget discussions. The current farm recession is now entering its fourth year and ranks among the deepest since 1915. This includes the agriculture recessions the nation experienced during the Great Depression, World War II, and the 1980's farm financial crisis.

I know that many of you are familiar with the figures. Net cash income over the last 3 years fell, in real dollars, to its lowest point since the Great Depression. Put another way, last year's prices were a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and corn, and an 8-year low for rice.

With essentially no improvement in commodity prices over last year, farmers are left with tighter cash flows and serious questions about how they are going to make ends meet.

Farm debt this year will surpass $180 billion for the first time in 16 years, and farm production costs are expected to increase $1.5 billion. The impact of the skyrocketing cost of natural gas is now rippling throughout the farm sector in the form of higher costs for nitrogen fertilizer and irrigation.

Repercussions are still being felt from the Asian economic crisis that began 3 years ago. In addition, 3 years of good weather worldwide have created bumper crops all around the globe. This has driven down prices and cut into potential markets for US producers.

Compounding this situation for American producers is the strength of the US dollar, which has contributed to a substantial increase in the relative cost of US commodities.

Despite some progress in lowering trade barriers through the World Trade Organization, the fact remains that the average tariff on US farm products in other countries is 62 percent, while the average US tariff on goods coming into the US is around 12 percent. Additionally, the European Union continues to outspend the US on agriculture, having spent $47 billion last year alone.

It is precisely these conditions that have led Congress to provide $18.1 billion in emergency income assistance over the last 3 years. This assistance was clearly needed and there was no question about whether or not Congress would act. This is why the Agriculture Committee has begun the process of developing legislation to provide multi-year additional income assistance.

The Agriculture Committee is currently holding hearings during which commodity and producer groups make specific recommendations on what Congress can do to bolster the farm safety net. These hearings are laying the groundwork for future farm policy and will help us as we write the next farm bill.

Given our experience over the past 3 years, it is my view that the budget allocation for agriculture should be permanently increased, rather than providing additional assistance on an emergency, ad hoc basis. The reasons for doing so are twofold: the first rests on the need for certainty in farming, and the second on budget discipline.

Ad hoc assistance is, by its very nature, unpredictable. Producers and lenders alike are understandably nervous about including any dollar figure for ad hoc assistance as they prepare cash flow calculations for producer financing. The current unpredictability of assistance affects not only producers and lenders, but ripples throughout the rest of the agricultural sector. When farmers and ranchers are unsure about income, they don't spend money with retailers, input suppliers, equipment manufacturers, or anyone else.

Everyone who has testified before the Agriculture Committee thus far has requested additional amounts for agricultural spending.

I am working with the Chairman and I am hopeful that we will eventually be able to introduce legislation that will ease the crisis. This is dependent, however, upon the provision of additional resources for agriculture.

Many of you have seen the letter from the commodity and farm groups requesting $9B for 2002 and $12B for each year thereafter. Let me pose a question to the members of the Budget Committee who also represent agricultural interests: *Do you believe that we will provide additional spending this year for agriculture? If your answer is in the affirmative, then now is the time to budget for it.*

The second reason for increasing the allocation for agriculture is the recognition of the need for a more predictable and disciplined approach to budgeting. The past 3 years have shown that Congress has the will to provide necessary assistance when existing programs are inadequate, but emergency waivers of the Budget Act have led to greater spending than might otherwise have occurred.

For example, when included in the FY 2001 Budget Resolution, the Committee on Agriculture spent the $7.1 billion that the resolution provided. That was not the case 6 months later, however, when another $8.9 billion was spent under emergency declaration.

I see two major deficiencies with the administration's FY 2002 budget for agriculture:

(1) It fails to provide a realistic budget for agriculture, given the additional ad hoc spending Congress has provided during the last 3 years.

(2) The budget relies upon an overall contingency fund that includes agriculture, when the amounts in the fund are already oversubscribed.

The reliance upon ad hoc spending for agriculture is simply unacceptable. As I indicated earlier, producers can't reliably set a budget, and bankers don't like the uncertainty. In addition, undisciplined budgeting results in deficit spending or dip-

ping into the Social Security or Medicare trust funds; funds which we are all pledged to protect. It also creates additional pressure on other important programs.

For example, conservation programs have greatly decreased soil erosion from wind and water. These programs are not a one-time investment; they are influenced by the weather and must be maintained year after year. We spend far less today on conservation programs than we did 50 years ago. Consider these unmet conservation needs:

The Wetlands Reserve Program has 3,153 applications pending to enroll another 562,000 acres; this is nearly 60 percent more than is currently enrolled.

The Environmental Quality Incentives Program (EQIP) has 197,000 applications to enroll an additional 66.6 million acres. The net cost to meet this demand would be over $1 billion.

The Wildlife Habitat Incentives Program has 3,017 applications pending to improve an additional 564,000 acres over the current 1.4 million acres.

These programs deliver services and benefits that the private sector cannot provide. While the private sector would realize few benefits by carrying out these programs, the public benefits are enormous. The question then becomes whether such benefits are best gained through incentive-based programs or through government regulation. Without public expenditure, however, there could be enormous public and private costs.

Rural development spending is another example of well-considered public spending in one area that forestalls greater spending in another. The strong economy that our nation has enjoyed these past several years has created improved employment in rural areas, as well as in cities and suburbs. The opportunity for off-farm income is helping many smaller farm families survive, when they might not otherwise do so.

Survey data from 1999 shows that farm households where the primary occupation was farming, but where sales were less than $250,000, comprise about 30percent of all farms. Off-farm income provided 85 percent of total average household income for farms with sales less than $100,000. Off-farm income provided 37 percent of total average household income for farms with sales from $100,000 to $250,000.

In spite of the $18.1 billion that was spent in emergency income assistance during the past 3 years, President Bush's budget fails to provide additional money for income assistance for farmers, and leaves the baseline for agriculture unchanged. The administration has stated that *"we may need to increase spending for our farmers"* and maintains that a portion of the contingency fund could be used to help farmers. Claims on the contingency fund, however, may exceed the money available.

Those of us who insist that Congress act on a budget resolution *before* voting on tax or spending legislation are not arguing about process or arcane budget rules. This argument is about acting responsibly to balance priorities important to our constituents. While we all support enacting the largest tax cut we can afford, we have a responsibility to consider what impact the tax cut will have on our ability to meet agriculture's needs before we enact a tax cut.

Just as the American people deserve to know what impact the tax cut will have on the priorities that are important to them, America's farmers and ranchers must be able to predict with some degree of certainty what their income assistance will be so that they can work with their bankers to make plans for the next 5 years.

An over-tapped contingency fund provides no certainty for our producers. At the time when they are in the greatest need, producers of our nation's food and fiber should not have to concern themselves with the adequacy of contingency fund monies, with competing needs of other programs, or with points of order against the use of Social Security or Medicare trust fund monies. There is no other fiscally prudent or rational alternative than to provide permanent authority to address agriculture's needs in the budget resolution.

Chairman NUSSLE. Thank you, Mr. Stenholm.

Let me ask you, are you as optimistic as I am that we might be able to come up with a reauthorization of the Farm bill this year? Is that something you believe is an attainable goal, and not wait until next year, when the reauthorization comes due, but actually complete consideration this year, so that whatever reforms we can come up with, you from the Ag Committee and we in the Congress, together with the administration can be put into effect as quickly as possible, from a policy standpoint, even before we talk about money for one moment?

Is that a reasonable time frame for your committee and for the Congress to be on, in your judgment?

Mr. STENHOLM. I wish I could say yes. Because I share your desire and the importance of accomplishing that goal. I think certainly Chairman Combest has established a very optimistic and progressive and ambitious hearing process to do just that.

But I think practically speaking, given the difficulty of the task that you have outlined for us, it will be very difficult to complete work this year. We'll try. I agree we should try. But I think more probably early next year will be more likely.

And I would also say, and I say this in deference to the administration, as you heard Secretary Veneman a moment ago. She's only been on board for 60 days. She doesn't have her full team in place, as yet. It's not realistic to expect the kind of guidance and the input that I believe she will be providing in a very active role as Secretary for us in time to do it this year also. But we're going to try.

Chairman NUSSLE. Let me put it a different way. You know the rules as well or better than I do when it comes to the budget. Would an instruction, a reconciliation instruction, assist us in this regard, some type of an instruction that can help expedite this process? Would that be a consideration that you would advise?

Mr. STENHOLM. Without much time to think on that question, I guess my first answer would be, I do not believe that that would be the kind of process that would be the most helpful to us for this year. But certainly, whatever this committee would choose to do, we will do our best, as the Agriculture Committee has always done. Whenever the Budget Committee has given instructions to us, we have taken the amount of money that you have set and we have done the best we could do with it.

I would encourage you to take a good, hard look and sleep on it twice before you go down that path, unless you have a policy in mind to accomplish that which you are suggesting with the dollars that we're talking about.

Chairman NUSSLE. Well, and that brings me to the second part of my question. That is, which comes first, the chicken or the egg? Part of my frustration with this whole discussion, and I share your concern as you may know, about the unrealistic nature of budgets that don't anticipate that which we know is about to occur. I mean, if we know it's coming, let's do something about it now.

But the same is also true for knowing that not only may there be a 2001 emergency, but there very likely, based on testimony that we've heard and that you've heard, there may be a 2002 emergency, if nothing changes and if there's no farm policy adjustment in the meantime.

Part of the frustration we have here is while, yes, from your standpoint and even if you look at the administration budget you could say, well, there's not enough money there. But who says? Who says there's not enough money there? Under what policy are we comparing it, to say there's not enough money there?

In other words, how much money do you need from us to write a Farm bill? And I don't think it's good enough to say, oh, I don't know, $9 billion, just because that's what the commodity organizations are suggesting. I've heard their plea as well.

But their plea comes without underlying policy consideration to the degree that it is necessary for us to write a Farm bill, any more than it's there for us to write a budget. So similar to the Defense Department, where the President said the strategy should determine the budget, not the budget should determine the strategy, I would suggest that the same holds true here.

We need a policy to write this Farm bill. Otherwise, we're putting money into a baseline that, with all due respect, and coming from farm country as well, may not be appropriately applied under responsible budgeting matrix, without the consideration of the policy. I'm very worried about what comes first here.

That's why I would really encourage, and I'm encouraged by what I've heard so far, but I would desperately encourage my friends on the Ag Committee that, as fast as we can, I don't want to move without careful consideration, but boy, as quickly as we can get this thing resolved in a bipartisan way, the way we used to write Farm bills around here, the better off I think we're all going to be.

I don't know what your response is to that, but that's my concern, is putting the money before the policy.

Mr. STENHOLM. I would briefly respond, Mr. Chairman. I share your concerns. But I would point out that my request comes under the policy that we are operating under, under the 1995-1996 Farm bill. If I had another hat on, if I were the chairman of the Ag Committee or if I were the Secretary of Agriculture, then I think it would be a very pertinent question to ask me.

But I think here, I defer to my chairman and to the Secretary. And we will be ready on our side of the aisle to work with the Secretary. And I'm certainly working with the chairman to develop those policies.

But until we do and until we have a clear signal of the direction we need to go, I'm here today asking the committee to provide the resources that I believe are going to be necessary under the policy we're now operating under. And we will work very closely with both sides of the aisle to develop a new set of policies that I agree are much needed.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Mr. Stenholm, I wanted to clarify about what you said about $9 billion to $12 billion. Is this a request for CCC programs, for commodity programs?

Mr. STENHOLM. That's correct.

Mr. SPRATT. And that's an increment to what is in the budget already?

Mr. STENHOLM. Over the so-called baseline.

Mr. SPRATT. We've got a chart up here, CCC outlays, Commodity Credit Corporation outlays. Have you seen this chart before?

Mr. STENHOLM. Yes, sir.

Mr. SPRATT. If you look backwards, just a few recent years, we've got outlays that run up as high as $30 billion. If you look forward from 2002 onward, we've got a precipitous drop and then a level of spending that is well below the recent past. Do you think that's realistic?

Mr. STENHOLM. Not if we continue the current policy. But just as I responded to the chairman, if we in fact change policy, then you can make those numbers work on certain policy. But they are not realistic to be budgeted for, based on current policy. Because we had the experience, since 1995 and 1996, of what that has brought to us. And we have no indication from any of the experts who have testified before the Ag Committee as yet that it is going to change.

Mr. SPRATT. Well, do you have any confidence that we can rewrite the farm program such that you can get it down to these levels? And if so, what would be the implications for family farmers across America?

Mr. STENHOLM. That's the subject of the hearings that we were in fact having just today, 2 hours before, on the House Agriculture Committee. It requires some changes in philosophy. I could not agree more with Mr. LaHood's comment, and point out that when we start talking about embargoes, last year, the Congress voted to lift an embargo on food and medicine. The House did, on Cuba. Even though it was a 300 to 100 vote in the House of Representative, the leadership of the House saw fit not to implement that particular piece of legislation.

It is also fair to make the statements that Mr. LaHood made about trade.

But again, I would be reluctant to say realistically, to put the burden on my chairman to say that we can accomplish the kind of in-depth agricultural policy changes this year under reconciliation instructions. But if you decide to do it that way, if that's the wish of the majority, then we'll bust a gut doing it.

But I would rather take a little bit more time and have a little bit more discussion about it, and accept this chart and other charts right now as being realistic and provide that additional budget. We can always change, as you know.

What I'm suggesting in terms of budget numbers, I want to make very clear, this fits within the so-called Blue Dog budget. And you're going to hear more this week about our dedication to restraint of spending. This is in the category of the ½–¼–¼ that we've been talking about, or the ⅓–⅓–⅓ you've been talking about regarding budget applications.

Mr. SPRATT. Thank you very much.

Chairman NUSSLE. Mr. Watkins, the gentleman from Texas has to go organize the Ag Committee. With all the to-do list we just gave him, he may need to go.

Mr. STENHOLM. The Agriculture Committee is formally organizing the democratic side today.

Chairman NUSSLE. I follow. But that's an important side, too. So Mr. Watkins, if you've got a question or two.

Mr. WATKINS. Mr. Chairman, I have the deepest respect for my friend from Texas, and also Mr. Spratt. I know we can probably work a lot of things out.

I'd just like to say that I am really concerned, Charlie. I think you know that. You know this, I'm genuine in what I'm saying. It's not political. Because my background in agriculture, the love I have for agriculture goes deep. Suffice to say that, I missed the Secretary, Mr. Chairman, because of a constituent problem out there

in agriculture, I went outside and all of a sudden she was finished up.

But I don't think, just to point out, in 1965 we had about 15 percent of our population in this country, John, that were in production agriculture. That's about the time I was state president of the Future Farmers of America. A few years later, we had about 12 percent, when I graduated from the college of agriculture up on the State.

Today we have only 1.5 percent of our people in production agriculture. That shows the erosion. We're going to have to do something to pay the price, like they're saying in France, we're going to pay whatever the price to keep the farmers in Europe. And they're doing it in exporting, Charlie, on the supply and demand side, and we're not competing. I'm for trade, free and fair trade, but we don't have the policies in place, Mr. Chairman, to save the American farmer. We've got to try to save him. But we do not have it in place today.

So Charlie, maybe you and I will have a chance over a prayer breakfast table or somewhere to talk some more about this. Thank you very much, and I'll respect the time.

Chairman NUSSLE. Thank you.

Thank you very much for coming today, Mr. Stenholm. We look forward to working with you on this.

Mr. STENHOLM. Thank you, Mr. Chairman. We look forward to working with you. I know of your keen interest in agriculture, and I never speak for my chairman, but Mr. Combest and I have a serious interest in the policy changes required. We look forward to working with you and Mr. Spratt and Mr. Watkins and other members of the committee. Thank you.

Chairman NUSSLE. Thank you very much.

Dr. Gardner, we appreciate your patience in allowing a member to organize his committee. We would enjoy hearing your testimony now. Your entire statement will be in the record, and you may summarize as you would like to proceed.

STATEMENT OF BRUCE L. GARDNER, CHAIRMAN, DEPARTMENT OF AGRICULTURE AND RESOURCE ECONOMICS, UNIVERSITY OF MARYLAND

Mr. GARDNER. Thank you, Mr. Chairman.

I will just briefly summarize what I have to say in the testimony. It's basically trying to get at a somewhat narrower issue that does get at this question of strategy of where it is that it would be most promising to go with agricultural policy. Because we all, I think, feel somewhat at sea with the situation as it is, and would like to consider alternatives.

I want to address three areas of Federal spending on farm programs that have been important since 1996: the production flexibility contract payments, marketing loan costs, which are principally loan deficiency payments, and the crop insurance program costs. All three of those are in a chart, Figure 2 at the back of the testimony, show how they have all expanded over the course of the 1996 Act.

The production flexibility, or Freedom to Farm payments, are the most costly budget item, and of course, they're the ones that have

been most troubling to many observers. Some have argued that the FAIR Act has failed, pointing especially to those payments and what they have done and not done. But we have to recognize that there are pros as well as cons to what the Freedom to Farm Act has done.

The pros are first that the program has, as advertised, allowed farmers more freedom to farm. Since 1996, we've seen about 10 million acres go out of wheat, and at the same time, about a 12 million acre increase in soybean acreage. This reflects in part the end of restraints on incentives that the former programs had created.

The second pro is that the payments themselves have been largely non-distorting in the sense that whether a farmer uses more or less inputs or switches acreage among the program crops or leaves land fallow, these things make no difference in the amount of payments received.

The cons of the 1996 Act, are first: that the payments have not been targeted to situation where they're most needed, either in terms of the most depressed commodities or the lowest priced years. Nor have they been targeted to the farmers who are at most economic risk. And the same is true of the market loss assistance supplementary payments of 1998, 1999 and 2000.

The second con is that the receipt of market loss assistance payments for the last 3 years and their gradual expansion to cover additional crops has led to an expectation extending almost to a sense of entitlement that the payments at higher levels should continue, as we've already heard. Of course, the producers of the commodities that haven't been covered or only partially covered so far are increasingly wondering why they're left out, leading to the problems that you've described quite eloquently, Mr. Chairman.

Turning to the marketing loan program, it wasn't created by the FAIR Act, but the lower prices of recent years, together with the decisions in the executive branch to maintain loan rates at the maximum levels the 1996 Act permitted, those decisions have made loan deficiency payments a large budget item. And the problem here is that these payments have overridden the market signals that were telling farmers to produce less. The market mechanism is missing that permitted hog prices, for example, after the disastrously low prices of a couple of years ago, to recover without Government intervention in any significant way.

USDA estimates that U.S. grain output now is something like 2 to 3 percent higher than would have been the case if we wouldn't have had the loan deficiency payment program. So very much unlike the Freedom to Farm payments, the loan deficiency payments do affect what farmers do.

And because the programs are encouraging over-production, I estimate that of the roughly $7 billion that the loan program is providing the farmers, $2 billion is being taken back again. That $2 billion goes to consumers or others on the grain buying side of the market through the lower prices that this over-production generates. Such distortion of markets is a real problem, and loan rates should be reduced to fix it.

Third is the crop insurance programs. These have been expanded to forestall the need for ad hoc disaster assistance, as we've already

heard. What is new under the FAIR Act is the unprecedented levels of subsidy for crop insurance, not just the FAIR Act, but the other crop insurance legislation since. And expansions of the programs to cover economic hazards as well. Some of these experiments I think are well worth looking at, such as revenue insurance. In the State of Maryland, we're now trying the pilot program on adjusted gross income insurance.

The problem here, though, is that even though the budgetary costs of crop insurance are in the neighborhood of $3 billion annually, or it looks like they will be for 2001, the program still has not attained sufficient coverage to forestall the need for ad hoc disaster assistance. Moreover, the subsidies for those who participate are becoming large enough to create significant incentives to grow crops in more drought-prone areas or otherwise less favorably situated areas.

But where does that leave us with the policy options as we look out? I think that's what we have to be thinking about, as you've been discussing. What alternatives make sense?

I'd like to consider one tempting possibility that I'm sure will come up, although I didn't hear anything about it today. One way to support farm incomes and farm prices without a lot of budgetary expenditures is returning to some kind of acreage controls or supply management program, while maintaining or even raising loan rates. Then you attempt to generate higher market prices in that way.

What are the pros and cons of that approach? The pros are the higher market prices can be obtained and thereby, farm incomes can be supported, with a smaller budget outlay. The cons are that the cost is shifted to consumers and other buyers of commodities, and that the total costs of consumers and taxpayers together will be higher to support a given level of farm income. The total costs will be higher just because in these supply management programs, farmers have to be compensated for the cost of holding valuable acreage idle, and that's a cost to us as a society, as well as to the farmers.

I have an overall estimate that the sum of gains to producers and landowners, taking away the losses to consumers and taxpayers, under the current Freedom to Farm programs for the grains and cotton, what is called in some of the economic literature a deadweight loss, amounts to about $200 million a year, basically from the overproduction that's being generated.

But if we try to achieve the same level of farm income, that is, an addition of about $20 million going to farmers through acreage controls, the overall social loss or deadweight loss would be $2 billion to $3 billion a year. That's because of the idled acreage.

Moreover, over the longer term, the supply management approach becomes less and less capable of delivering benefits to farmers. I would express the basic issue as follows. We can all see that when there's a bad crop year in the United States, prices rise sharply, because demand is inelastic. So there are big gains for farmers to be had. Therefore, it's natural to think that if we can create this kind of scarcity through policy, we will make our farm community better off.

But the problem is that the supply and demand responses in the longer run are larger. If you keep managing supply year after year, and all market participants believe that the U.S. will take steps to forestall lengthy periods of low prices, then foreign producers are going to discount the prospect of low prices, they will produce more than they otherwise would, and the main thing the U.S. will accomplish is to lose markets.

That's the problem with this approach, the supply management approach. It's the difficulty we got into with the pre-1990 programs, and even to some extent in 1990 to 1995. I believe it's what we would get into again if we go down the supply management route.

So comparing the pros and cons that I just mentioned for a supply management approach with the FAIR Act Freedom to Farm approach that we've had, I wouldn't want to say that the FAIR Act has been a sterling example of policy at its finest. But I do say it's an improvement over what we had before, and it would be a serious mistake to go back to those former policies.

I think overall, the preferable, forward looking approach is to continue with the phaseout of payments that was begun under the FAIR Act and to focus Federal spending on policies that in the past have reaped the greatest rewards for our Nation, including both food consumers as well as producers and all involved in the agricultural industry.

These are the policies that help make the United States the world's leader in agriculture and food production. These include continuing efforts in research, technology development, technical education. I believe it's important to maintain these efforts, and to continue the turn in these investments toward things like improving water quality, conservation programs, and to keep supporting biotechnology development, including things like alternative fuels and other alternative uses of agricultural products.

It's especially important, as I have heard several people mention, to make progress on international trade agreements, to reduce protectionism in agricultural trade. A key practical step in this last area is the congressional granting of Fast Track negotiating authority to the President. And I think these policies could be supplemented with a kind of market oriented safety net policy, like a broad based risk management approach where farmers essentially ensure against their own losses maybe with some Government help, but try to keep the incentives to invest in unduly risky activities down.

And also, more broad based rural development policies, that are aimed at taking the people who really are in trouble in agriculture, and there are a lot of them, and giving them assistance in a way that doesn't lock them into losing farm enterprises, but gives them other alternatives if that's what works best for them. That whole scheme of things I call broad based rural development policies.

I think one reason it would take a while to think about alternatives to what we have now in the Agriculture Committee is that a whole range of things ought to be considered as an alternative to the kind of ad hoc payments that we're making now.

Thank you very much.

[The prepared statement of Bruce Gardner follows:]

PREPARED STATEMENT OF BRUCE L. GARDNER, CHAIRMAN, DEPARTMENT OF AGRICULTURE AND RESOURCE ECONOMICS, UNIVERSITY OF MARYLAND

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you to address issues of Federal spending on farm policy. I am not going to attempt to cover the whole agriculture budget, but instead will briefly address two central issues in commodity policy: first, assessment of the FAIR Act's "freedom to farm" approach to commodity programs as they have been implemented; and second, policy options for the immediate and longer-term future.

ASSESSMENT OF THE FAIR ACT

The Agricultural Market Transition Act (AMTA) title of the 1996 FAIR Act is a novel departure in farm policy. Its fixed payments, no acreage set-asides, and avoidance CCC commodity stockpiles provides a possible means of transition to a market-based agriculture that would not require governmental intervention to prop up the agricultural economy. Some now argue that the FAIR Act has failed, on the grounds that we have spent too much, while at the same time this spending is not effectively targeted at situations and people where help is most needed. As Figure 1 shows, outlays on agricultural support are at near record highs.[1] What should be done, in the view of some critics, is to scrap the FAIR Act approach and replace it with a different approach, such as going back to payments that go up or down inversely with market prices, and annual acreage set-asides if needed to support market prices.

In order to evaluate this argument, I want to consider three important areas of Federal spending on farm programs since 1996: production flexibility contract payments, marketing loan costs (principally loan deficiency payments), and crop insurance program costs. Figure 2 shows these costs, along with predecessor deficiency payment program costs, since 1992.

Production flexibility, or freedom-to-farm payments are the biggest item and the most troubling to many observers. As Figure 2 shows, they started at a level about equivalent to what deficiency payments had been on average in 1992-95, but have ended up higher. As contemplated at the time, the 1996 Farm bill was being debated, freedom-to-farm payments were a mechanism to phase out a long history of commodity programs for grains and cotton which had come to be seen as having outlived their usefulness. But as implemented they proved to cost more than the preceding deficiency payment programs would have cost during 1996-2000, and are no longer seen as a mechanism leading to an end to traditional commodity programs in 2002. I see the pros and cons of the FAIR Act as implemented as follows:

Pros: (1) The program has, as advertised, allowed farmers more freedom to farm, and resulted in production choices more attuned to market conditions than the old deficiency payment and set-aside approach had done. Since 1996 we have seen about 10 million acres go out of wheat and, at the same time, about a 12 million acre increase in soybean acreage, reflecting in part the end of restraints on incentives that the former programs had created. (2) The payments themselves have been largely non-distorting, in that whether a farmer uses more or less inputs, switches acreage among program crops, or leaves land fallow makes no difference in the amount of payments received. That is to say, the FAIR Act has generated less deadweight loss to our economy than previous agricultural programs.

Cons: (1) The payments have not been targeted to situations where they are most needed, either in terms of most depressed commodities or lowest-price years, nor have they been targeted to farmers who are most at economic risk. (2) In response to farm distress when prices fell in 1998, 1999, and 2000, market loss assistance payments were made to supplement contracted payments, but these too were not directed at states or farmers where problems were greatest. (3) The receipt of market loss assistance payments for the last 3 years, and their gradual expansion to cover additional crops, has led to an expectation, extending almost to a sense of entitlement, that payments at the higher levels should continue.

[1] Figure 1 shows both budget spending and payments received by farmers. The two series are closely related but differ in that some budget spending does not result in payments to producers (for example, CCC acquisitions of dairy products). The much higher budget outlays shown for FY2000 are in part the result of market loss assistance outlays for both 1999 and 2000 crops occurring in FY2000. Adjusting for this would lower the 2000 outlay value by about $5.5 billion. It should also be noted that producers get some benefits from commodity programs apart from payments, such as higher sugar prices because of U.S. import restrictions. The budget data are CCC budget outlays plus estimated crop insurance program costs as estimated by Jerry Skees, "The Bad Harvest," mimeo, University of Kentucky, 2001. CCC outlays in recent years omit USDA's personnel and other costs of administering the programs which would be about $600 million annually if included.

The marketing loan program was not created by the FAIR Act, but the lower prices of recent years, together with the decisions of the executive branch to maintain loan rates at the maximum levels the 1996 Act permitted, have made loan deficiency payments a large budget item and have caused economic distortions. With loan rates set at their legislated maximum, and the administration of the loan deficiency payment program generating expected market returns to farmers that exceed loan rates by 10 to 15 percent, the loan program is overriding market signals. The market mechanism is thus missing that permitted the hog prices, for example, to recover without government intervention after the extraordinarily low prices of 1998 and 1999. The exact amount by which the loan program is fostering overproduction is difficult to estimate. Reasonable estimates are those of the Economic Research Service that indicate 2000 output of grain was perhaps 2 to 3 percent higher than would have been the case if producers had not received loan deficiency payments. This means market prices of grains and oilseeds would have been about 3 percent higher, with a bigger increase for cotton, if the loan programs were not encouraging overproduction. Consequently, of the roughly $7 billion annually the loan program is providing to farmers, $2 billion is being taken back again—actually given to consumers and others on the grain buying side of the market—through lower prices caused by the program.[2] Such distortion of markets is a real problem, and loan rates should be reduced to fix it.

Crop Insurance and Disaster Assistance Programs. Attempts to forestall the need for ad hoc disaster assistance by having farmers buy crop insurance are of course not new with the FAIR Act. What is new since 1996 is unprecedented levels of subsidy for crop insurance and expansions to cover economic hazards as well. The problem here is that even though the budgetary costs of crop insurance are in the neighborhood of $3 billion annually as of the 2001 programs, the programs still have not attained sufficient coverage to forestall the need for ad hoc disaster assistance. Moreover, the subsidies for those who participate are becoming large enough to significantly affect farmers' production decisions. In particular, there is an incentive that cannot be ignored to grow crops in more drought-prone and otherwise less favorably situated areas.

POLICY OPTIONS FOR THE SITUATION IN 2001 AND BEYOND

What alternatives make sense to consider in formulating the Federal budget for 2002? One tempting possibility might be to save outlays by scrapping the freedom to farm approach, and re-introducing acreage set-asides. The idea would be to drive up commodity prices, thereby reducing loan deficiency payments. However, acreage idling is a very wasteful use of our agricultural resources, and I believe the costs of this option to our economy far exceed the benefits.

Another option for reducing budget outlays from levels of the last 2 years would be simply to limit AMTA payments to the originally contracted amounts and not supplement them with market loss payments for the 2001 crops. Although commodity prices are likely to remain low this year, the idea that the U.S. farm economy is in a state of financial crisis that requires such payments is overdrawn. The best evidence of this is that cropland rental rates and prices continue to rise. It is true that some farms are in deep financial trouble. The problem with market loss assistance payments in this respect is that the vast bulk of them go to farms that are not in financial trouble, and the sums that do go to farms in financial trouble are generally not sufficient to restore them to solvency.

With respect to the longer term, the necessity to make changes in policy is greater because the FAIR Act's AMTA program expires next year. Possibilities will again be considered of returning to acreage controls, while maintaining or raising loan rates, and attempting to generate higher market prices through supply management. What are the pros and cons of this approach? The pros are that higher market prices can be obtained and thereby farm income can be supported for a smaller budget outlay. The cons are that the cost is shifted to consumers and other buyers of commodities, and that the total costs of consumers and taxpayers together will be higher to support a given level of farm income. The total costs will be higher because farmers will have to be compensated for the costs of holding valuable acreage idle.

My overall estimate is that the overall sum of gains and losses under current AMTA programs for the grains and cotton is a deadweight loss of about $200 million

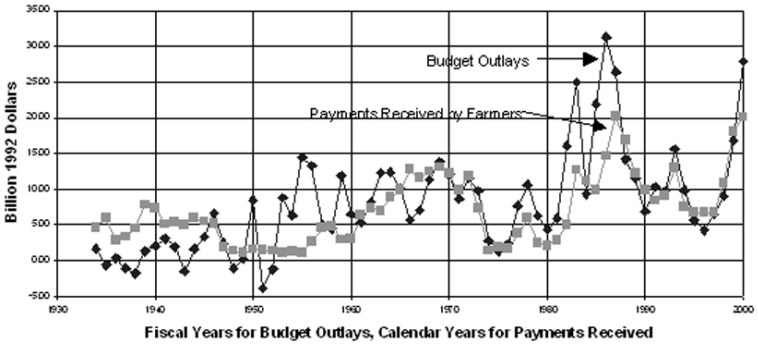
[2] The ERS background for the preceding estimates is in P. Westcott and M. Price "Analysis of the U.S. Marketing Loan Program," draft, August 2000; and details of the calculations are spelled out in B. Gardner, "Agricultural Policy: Pre- and Post-FAIR Act Comparisons," prepared for a Senate Agriculture Committee staff briefing, December 2000.

per year. But if we tried to achieve the same level of farm income through acreage controls, the deadweight loss would be $2 to 3 billion per year.[3] Moreover, over the longer term the supply management approach becomes less and less capable of delivering benefits to farmers. I would express the basic issue as follows: we can all see that when there is a bad crop year in the United States, prices rise sharply. Demand is inelastic. There are big gains for farmers to be had. So it is natural to think that if we can create such scarcity through policy we will make our farm community better off. But the problem is that supply and demand responses in the longer run are larger ("more elastic"). If you keep managing supply year after year, and all market participants believe the U.S. will take steps to forestall lengthy periods of low prices, then foreign producers will discount the prospect of low market prices, produce more than they otherwise would (as U.S. farmers would if were not for acreage restrictions), and the main thing the United States will accomplish is to lose markets. That is the problem. That is the difficulty we got into in pre-1990 programs, and I believe it is what we will get into again if we go down the supply management route.

In short, while I would not say that the FAIR Act has been a sterling example of policy at its finest, I do say that it is an improvement over what we had before, and it would be a serious mistake to go back to former policies.

The preferable forward-looking approach in my opinion is to continue with the phase-out of payments that was begun under the FAIR Act, and to focus Federal spending on policies that have reaped the greatest rewards for our nation, including food consumers as well as producers, policies which have helped make the United States the world's leader in agriculture and food production. These include continuing efforts in research, technology development, and technical education. I believe it is important to maintain these efforts, and to continue to turn these investments toward remedies for market failures, for example protecting water quality, and to keep supporting biotechnology development. It is especially important to make progress on international agreement to reduce protectionism in this and other areas of agricultural trade. A key practical step in this last area is congressional granting of fast-track negotiating authority to the President. These policies can be supplemented with market-oriented safety net policies having only modest subsidies, and financial assistance targeted at people in trouble without locking them into losing farm enterprises—that is, broad-based rural development policies.

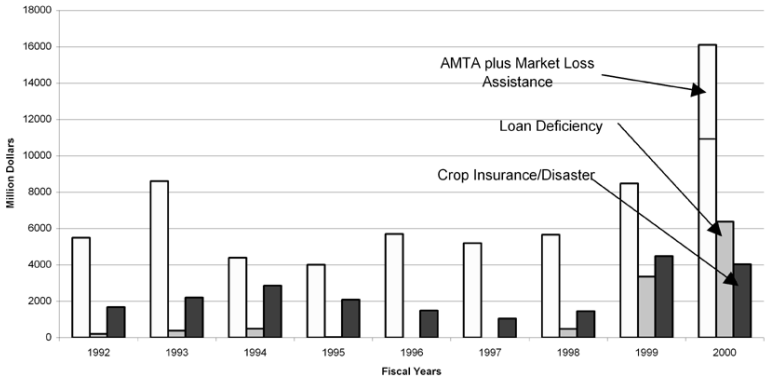
Figure 1. Real Farm Program Budget Outlays and Payments Received by Farmers (1992$), 1934-2000



Source: USDA and Skees (cited in text).

[3] Details of the analysis leading to this conclusion are in "Agricultural Policy: Pre- and Post-FAIR Act Comparisons," cited in the preceding footnote.

Figure 2. Deficiency and AMTA Payments, Loan Deficiency Payments, and Crop Insurance/Disaster Outlays



Source: USDA and Skees (cited in text).

Chairman NUSSLE. Thank you, Doctor.

I'm interested in your last couple of comments there. You would then therefore advocate for or at least be willing to consider some type of a program of income assurance or insurance through, as opposed to our current program?

Mr. GARDNER. That's something I would want to put on the table for consideration, yes. I'm not saying I'm advocating that today. My main point today was just to compare the supply management with the Freedom to Farm approach.

Chairman NUSSLE. And we appreciate that. That's what we're looking for right now, is alternatives.

Let me ask you this. The Farm Bureau has, together with a number of other commodity organizations, has put a number on the table of somewhere between $9 billion and, as Mr. Stenholm reported here, maybe as high as $12 billion over and above what we're talking about, $9 billion for 2002 and $12 billion annually thereafter.

Is this advisable, in your opinion, based on your testimony? I'm getting the impression that it may not be. Let me start with that. What's your impression of the increased funding request?

Mr. GARDNER. Again, the strategic point I wanted to make is that you don't want the policies that you put in place to create any efficiencies, to create overproduction or to have underproduction. The nice thing about Freedom to Farm payments is that they don't do that, they just go into the farmer's pocket pretty much whatever the farmer does.

Now, the question of the $9 billion to $12 billion is, how much money do you want to devote to this purpose. For me as an economist, it makes a big difference how you spend that money. To me, that's the most important issue. The question of how much to spend is a more political issue. And there, I'm not running for anything and I don't have a view.

Chairman NUSSLE. We'll put the number at $9 billion and what would be your advice on how best we should spend that money?

Let's take their number. What would be your advice on how we should allocate that?

Mr. GARDNER. Well, first, I would say that's a big number, to me. Even over the kind of numbers that are in red on the chart. So you could do a lot with that kind of money. With that kind of money, no matter how you spend it, you're likely to have some effects on what farmers do, so you want to be careful about how you do it.

I think a good way is to consider some kind of revenue insurance or some broader kind of risk management tool. I wouldn't want actually want to limit it to revenue insurance. I actually like the ideas that Senator Lugar was putting forth on the Senate side last year, where you allow farmers a lot of options with what to do with money that the Government puts up to support this kind of activity.

I definitely would not want to spend any of this money raising loan rates. I think that would be the worst way to do it, because it would just intensify the overproduction problems that we have. I think that these rural development ideas that I talked about, which I admit are extremely vague, should be looked at, but that takes time. And in fact, I would say that you shouldn't try to put something through this year.

I understand it's very difficult, all these pressures on how to react to the demands that are put on the Congress for funds. But I would much rather be careful about this, and if it came to spending $9 billion this year, I would rather just spend it the way it was spent in previous years than to precipitously set up a new kind of program that really hadn't been tried before.

I guess I'd leave it at that, except, let me say one thing about the market situation. I agree with all the pessimistic statements that have been made about prices, where they are now and that the prospects aren't high that they're going to improve much this year, although I do think the likelihood is they'll improve a little this year.

If you look at history and how the farm commodity prices have behaved in the past, we've had this pattern of long periods of very low commodity prices, farmers are just barely getting by, and then something unexpected happens and we have a boom. We had this in World War II, we had it in the Korean War, we had it in the 1970's, we had a taste of it in 1995 and 1996. And none of those cases were predicted. When it happens again it won't be predicted, either.

So there's always the possibility that something will, as Mr. Micauber says in Dickens, something will turn up. It has happened from time to time in the past. So in that respect, it's worth sometimes waiting to see what's going to happen in the next year. Because one thing to think of, stocks are not high right now. It wouldn't take that much of a reversal. The dollar being less strong, a number of other things happening.

Chairman NUSSLE. I understand it's complicated. And I'm certainly not suggesting that the entire Farm bill needs to be reauthorized by the end of this year, but the commodity portion of it I think needs serious consideration. I'll tell you the biggest demand or the biggest deterrent from this, I would suggest, is not market driven but politically driven, more than anything else. When Con-

gress wants to move, as you saw us move the tax legislation last week, we can move pretty fast when we want to. When we don't have the demand or the deadline or the political demand, sometimes we can put things off, well, forever.

So I certainly understand, we don't want to move so precipitously that we make a mistake. All I would just observe is that hasn't stopped us before.

Mr. Collins, do you have any questions? Mr. Brown, do you have anything?

Thank you very much for coming today and giving us your advice. We appreciate that and look forward to any more words of wisdom you might have in the future.

Thank you.

If there isn't anything else to come before the committee, we'll stand adjourned.

[Whereupon, at 3:19 p.m., the committee was adjourned, to reconvene at the call of the Chair.]

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