UNITED STATES DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE

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Statement by
Mike Johanns
Secretary of Agriculture
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Mr. Chairman and Members of the Committee, I am here today to discuss the programs and budget of the Department of Agriculture. I appreciate your interest in the Department of Agriculture and the benefits the Department's programs have for farmers, consumers, and a variety of other constituents. I am joined today by Deputy Secretary Chuck Conner; Scott Steele, our Budget Officer; and Keith Collins, our Chief Economist.

The Administration has recently released two important documents that highlight our priorities for 2008. On January 31, 2007, I announced a comprehensive set of Farm Bill proposals to replace the expiring Food Security and Rural Investment Act of 2002 (2002 Farm Bill). On February 5, we released our 2008 budget. The Farm Bill proposals will modify some of the projected spending in portions of the budget. The Farm Bill proposals and the 2008 budget were developed on parallel tracks. Our priorities, including conservation, renewable energy, rural development and others, are covered in both the Farm Bill proposals and the 2008 budget. I will assure you that we are upholding the President's plan to eliminate the deficit within five years.

I would like to provide the Committee an overview of the Department's diverse programs, review some key trends in our mandatory programs, including an overview of our 2007 Farm Bill proposals, and provide the highlights of our 2008 budget request for discretionary programs.

2008 Total Budget Outlays

USDA outlays are estimated to total $89 billion in 2008, roughly the same as the level estimated for 2007. Of the total outlays for the Department, 59 percent supports domestic nutrition assistance programs, including: food stamps, school lunch, and the Special Supplemental Nutrition Program for Women, Infants, and Children - better known as the WIC Program. Spending for farm programs, including commodity payments, farm loans and crop insurance, accounts for about 19 percent. Conservation and forestry programs account for about 11 percent. The remaining 11 percent represents all of the other programs operated by the Department -- rural development, research, food safety, animal and plant health, international programs and administration.

Another way to look at our budget is the breakdown between mandatory and discretionary spending. For 2008, mandatory outlays are $67 billion, or 75 percent of the Department's total. Outlays for discretionary programs are estimated to be $22 billion, or 25 percent of total outlays for the Department. The Department's largest discretionary program is WIC. Other programs in the discretionary category include the Forest Service, rural development, research, food safety, and plant and animal health.

Mandatory Outlays

Mandatory spending is dominated by a small number of relatively large programs. Nutrition assistance programs, including Food Stamps and Child Nutrition Programs, account for $51 billion, or approximately 76 percent of mandatory outlays. Crop insurance and farm programs funded by Commodity Credit Corporation (CCC) account for $16 billion, or approximately 24 percent of mandatory outlays.

Within the mandatory category, the trend has been an increase in the share of outlays associated with the nutrition assistance programs -- from 60 percent of mandatory spending in 1999 to 76 percent in the 2008 estimate. Mandatory nutrition assistance programs are the Food Stamp Program and Child Nutrition Programs, which includes the National School Lunch Program. The increase in nutrition assistance outlays is largely due to food cost inflation and increasing participation.

Farm Program Spending:

During this same period, outlays for farm programs and crop insurance have declined from 40 percent to 24 percent of mandatory spending. Farm program spending can be highly variable, largely reflecting changes in commodity markets as well as emergency spending to address natural and economic disasters in the agriculture and rural economy. Mandatory spending on farm programs funded through CCC, including the Conservation Reserve Program (CRP), has decreased from a record-high of $32.3 billion in 2000 to just over $20 billion in 2006. We expect this trend to continue with CCC outlays estimated to decline to $11.7 billion in 2008 under current law, which assumes a simple extension of the 2002 Farm Bill. CCC outlays under the current law baseline are estimated to increase to an average of $12.4 billion annually from 2008 to 2017.

The reduction in CCC outlays in 2007 to 2008 is driven largely due to higher crop prices. Prices are higher because of the dramatic increase in the demand for corn for ethanol production. Additionally, most of the other major commodities are also at relatively high price levels. These high commodity prices have lead to a significant reduction in CCC outlays, which indicates that farmers are relying more on the market for revenue than payments from the Government. Both the Administration and the Congressional Budget Office January baselines for CCC commodity programs show this effect. The rising demand of farm products for biofuel production coupled with strong export demand are expected to keep prices of most of the major CCC supported commodities at high levels for the coming years.

The 2002 Farm Bill authorized a major expansion of other conservation and environmental programs administered by the Natural Resources and Conservation Service. These programs are authorized by Title II of the 2002 Farm Bill and include:

the Environmental Quality Incentives Program (EQIP), the Conservation Security Program (CSP), and the Wetland Reserve Program (WRP). For 2007 and 2008, nearly $2 billion in mandatory funding will be spent each year on these programs. From 2008 to 2017 the annual costs for these programs are estimated to average between $2 billion and $3 billion, assuming extension of the 2002 Farm Bill. Within the amount for total CCC outlays, CRP accounts for $2 billion per year in 2007 and 2008 and will average approximately $2.5 billion annually over 2008 to 2017 under current law.

Crop Insurance:

The other major component of USDA mandatory outlays is the Federal crop insurance program, a significant element of the farm safety net. Through the crop insurance program, farmers and ranchers are able to reduce the impact of natural disasters. Crop insurance is delivered through private insurance companies that share in the risk of loss and opportunity for gain. The companies are reimbursed for their delivery expenses and receive underwriting gains in years of favorable loss experience.

The mandatory costs associated with the crop insurance program include premium subsidies, indemnity payments (in excess of premiums), underwriting gains paid to private companies, reimbursements to private companies for delivery expenses and other authorized expenditures. While these costs are considered mandatory, they are subject to the annual appropriations process. Recognizing the uncertain nature of forecasting crop losses, in recent years, appropriations acts have provided “such sums as necessary.” For 2008, the budget estimates about $5 billion for the mandatory costs of the crop insurance program, which is roughly double the level of ten years ago. These costs are expected to grow roughly 2 percent a year from 2008 to 2017 with estimated total costs of over $6 billion in 2017.

Food Stamps and Child Nutrition Programs:

The 2008 budget fully funds the expected requirements for Food Stamp and Child Nutrition programs. For Food Stamps, the budget includes nearly $37 billion to fully fund estimated Food Stamp participation and food cost inflation. Food Stamp participation is projected to decline modestly from 26.3 million in 2007 to 26.2 million in 2008. The budget provides over $14 billion for Child Nutrition Programs. This will support National School Lunch Program participation of 31.5 million children each day as well as food cost inflation.

Total outlays for Food Stamps and Child Nutrition Programs are expected to continue to increase approximately 4 percent a year over the next several years due to inflation and the changing demographics of the Nation, most significantly, an increase in the school-age population growth.

Although no program changes are sought for the Child Nutrition Programs, a number of legislative changes are proposed to improve access to Food Stamps as well as target them to the neediest. The 2008 budget includes proposed legislation to continue to exclude special military pay when determining food stamp benefits for deployed members of the armed services. Military personnel often receive supplements to their basic pay when they serve in combat. This proposal supports the families of servicemen and servicewomen fighting overseas by ensuring that they do not lose Food Stamp Program benefits as a result of this additional income. Further, the budget includes a proposal to exclude all retirement and education savings accounts from being counted as resources for eligibility determinations. This will help families access food stamp assistance without putting their future security at greater risk in their time of need.

In addition, the budget reproposes legislation to restrict categorical eligibility for Temporary Assistance for Needy Families (TANF) recipients to those receiving actual cash assistance. Under current law, households that receive TANF services, including receipt of an informational pamphlet published with TANF funds, but which do not receive cash assistance, can be deemed categorically eligible for food stamps. Those receiving in-kind benefits under TANF could still qualify for food stamps by meeting the income eligibility criteria.

2007 Farm Bill Proposals:

I would like to take this opportunity to briefly outline the Administration’s 2007 Farm Bill proposals, their potential budgetary impact, and how they are accounted for in the President’s 2008 budget.

The Administration’s Farm Bill proposals represent the final phase of a nearly two-year process. We listened closely to producers and stakeholders all across the country and took a reform-minded and fiscally responsible approach to making farm policy more equitable, predictable and protected from challenge in the world trade arena.

We started with the 2002 Farm Bill and propose to improve it by bolstering support for emerging priorities and focusing on a market-oriented approach.

While the current law has served its purpose, the time has come to move forward with a farm program that is more market-oriented and considers more than commodity prices alone when determining the appropriate level of Government support. The proposals continue this Administration's commitment to increase conservation programs that protect our natural resources and focus support on renewable energy that will help lead us to the President's goal of reducing annual gasoline use by 20 percent in ten years.

Let me touch briefly on a few areas where specific increases in our resources will help us continue to make progress in strengthening agriculture, rural America and environmental protections.

Highlights of the proposals include (funding reflects ten year totals):

- Reforming commodity programs to save $4.5 billion through modernizing marketing assistance loans, tightening payment limits and closing loopholes, while enhancing the safety net with a revenue based countercyclical program and increased direct payments.

- Increasing conservation funding by $7.8 billion, simplifying and consolidating conservation programs, redesigning the Environmental Quality Incentives Program (EQIP) to include a Regional Water Enhancement Program;

- Providing $1.6 billion in new funding for renewable energy research, development and production;

- Targeting nearly $5 billion in funding to support specialty crop producers by increasing consumption through food assistance programs, funding specialty crop research, and expanding export markets;

- Supporting beginning farmers by increasing their direct payments by $250 million, reserving a percent of conservation funds, and providing more loan flexibility for down payment, land purchasing and farm operating loans;

- Strengthening disaster relief by establishing a revenue-based counter-cyclical program, providing gap coverage in crop insurance, linking crop insurance participation to farm program participation, and creating a new emergency landscape restoration program;

- Simplifying and consolidating rural development programs while providing $1.6 billion in loans to rehabilitate all current Rural Critical Access Hospitals and $500 million in grants and loans for rural communities to support high priority rural infrastructure projects;

- Dedicating nearly $400 million to trade efforts to expand exports, fight trade barriers, and increase involvement in world trade standard-setting bodies; and

- Modernizing and renaming the Food Stamp Program to improve access for the working poor, better meet the needs of recipients and States, and strengthen program integrity.

These proposals would provide approximately $5 billion more over ten years from 2008 to 2017 than the projected mandatory spending if the 2002 Farm Bill were extended. The 2008 budget makes accommodation for this by including an additional $500 million per year to the funding total for CCC. This level extended for ten years would cover the full estimated cost of the proposals. Under these proposals, we would spend approximately $10 billion less than what was spent under the 2002 Farm Bill over the past five years, excluding *ad-hoc* disaster assistance, upholding the President's plan to eliminate the deficit in five years.

2008 Discretionary Budget Request

Outlays for USDA's 2008 discretionary budget are estimated to be approximately $22 billion, about the same level as 2007 and 2006. The 2008 budget for discretionary programs reflects the President's priorities to encourage economic growth and increase our security, while recognizing that fiscal discipline is absolutely necessary.

The budget requests the resources necessary to protect the food supply and agriculture from a variety of threats that could have devastating effects on animal and human health. This includes increased monitoring and surveillance of the food supply and development of technology that will enhance our ability to detect and respond to food emergencies, including threats from avian influenza and bovine spongiform encephalopathy (BSE). A record level of funding is also requested for meat, poultry, and egg product inspection.

Another priority for the Department is a continued focus on expanding renewable energy resources. Increased funding is significantly increased for research to help lead to more efficient production of cellulosic ethanol and conversion of biomass into biofuels. In addition, our rural development programs will increase the amount of financial support available to leverage private sector funding for small and large-scale renewable energy generation activities.

The budget also requests the resources necessary to meet the requirements of the neediest individuals in the Nation. It supports average monthly participation of 8.3 million participants in the WIC program, an increase of 100,000 participants per month over 2007. We are also proposing $15 billion in rural development loans, grants and other assistance. At the proposed level, over 39,000 homeownership opportunities would be provided and 16,500 multi-family housing projects that provide housing for 460,000 low-income tenants, most of whom are elderly, would be maintained.

The Department will continue to foster environmental stewardship by providing conservation technical assistance to farmers, ranchers, and landowners. As I mentioned earlier, the budget includes nearly $4 billion in mandatory spending for the Department's major conservation programs, which will support a record cumulative enrollment of 215 million acres in these programs.

The budget for the Forest Service provides sufficient wildland fire resources to protect communities and natural resources, and provides for sustainable forests and communities through full funding of the Northwest Forest Plan and continuation of the Payments to States Program. Fire suppression funding is at the ten year average. In addition, the budget provides funding to continue implementation of the President's Healthy Forests Initiative to mitigate the threat of catastrophic wildfires. Resources proposed in the budget will reduce hazardous fuels on an estimated 2.95 million acres of land, an increase of 50,000 acres over the acres expected to be treated in 2007.

Tough choices had to be made as well to keep spending under control and achieve a balanced budget. This means doing more with less, eliminating programs that are not getting the job done, or cutting out wasteful spending. Therefore, the 2008 budget includes proposals to reduce funding or terminate low-priority, duplicative, or poorly performing programs. These include a reduction of $438 million in earmarks in research programs and research facilities construction.

In closing, I want to emphasize that the USDA budget fully supports the President's goals to strengthen the economy, increase security, and restrain spending. The budget addresses these goals by funding our highest priorities. These funding priorities strengthen agriculture and rural economies, protect our food supply, build on our conservation efforts, and provide for the neediest individuals.

That concludes my statement. I will be glad to answer questions you may have on our proposals.