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CLAYTON YEUTTER SECRETARY OF AGRICULTURE BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY FEBRUARY 7, 1990

Clayton K. Yeutter
Mr. Chairman and Members of the Committee, I welcome the invitation to appear today to discuss the 1990 Farm Bill. The making of farm policy in 1990 will be truly historic. The road that we take over the coming months will be vital to U.S. farmers, the American public, and, in fact, the world.

As you know, we have been working very hard at the USDA and within the Administration for many months to develop proposals that we believe will best serve our nation's food and fiber industries and all Americans. Yesterday we unveiled our ideas. This morning, I would like to bring into focus the more than 50 initiatives we are proposing as modifications to the 1985 farm bill.

From the start, one goal has been to develop a set of proposals which recognize that U.S. agriculture operates in a world marketplace. Our policy must be one that commits U.S. agriculture to compete, because without greater access to foreign markets U.S. agriculture will stagnate. We have sought also to be sensitive to environmental concerns.

We believe that the 1990 farm bill should be based on the Food Security Act of 1985. We propose continuing the market oriented transition of that legislation. That calls for provisions which ensure that farmers respond to market signals, not government programs. Our proposals on price support
programs, stocks policies, planting flexibility, and credit are all designed to strengthen the link between market conditions and farmers' decisions. Providing farmers more planting flexibility must be a key element of the 1990 farm bill. We will submit to you a comprehensive flexibility proposal which should enhance farm income while simultaneously fostering environmentally sound production practices.

Perhaps no set of agricultural issues will receive more scrutiny during the 1990s than the relationship between agricultural production and conservation and environmental concerns. We are, therefore, proposing a broad-based environmental initiative that includes research; education; land management and acreage retirement programs directed at water quality, wetlands, wildlife, trees, and erosion; a multi-year set-aside; and the more flexible production alternatives I have already mentioned. We have crafted these proposals to target specific areas and problems so that environmental benefits are maximized without undermining the competitiveness and productive capacity of U.S. agriculture. USDA has been known as the "People's Department" for 127 years, and as we begin the last decade of this century, we find that spending on food and nutrition programs accounts for half of our budget. We propose full funding for USDA's domestic food assistance programs for the needy. In addition, we will strengthen and improve food program administration. We also
propose a number of changes in our marketing and inspection service programs to improve their effectiveness in assuring the safety of the nation's food supply.

Virtually all indicators of farm sector well-being have improved since 1985. Farm income is up, farm failures are down, farmland values are recovering, and debt-to-asset ratios have improved. Commodity surpluses have all but disappeared, some idle land has returned to production, and farm program spending is down.

We have a unique challenge in 1990. U.S. farm policy will be written while our government concurrently engages in the most significant multilateral trade discussions ever. However, it would be incorrect to state that farm legislation will be unaffected by the GATT negotiations or that the GATT will not be affected by actions taken in Washington. Clearly there is a relationship between these two important initiatives. As the world's major agricultural exporter, changes in agricultural trading rules will obviously affect the United States--and we intend to do everything in our power to make sure these changes are for the better. They can only get better.

The dominant issue in both the multilateral trade negotiations and the 1990 farm bill is the same--a stronger agricultural economy for America. Our farm bill proposals, which combine increased production responsiveness, aggressive export assistance targeted at unfair competition, market-oriented loan and storage programs, and greater research funding should signal
to our competitors the resolve we have to compete in world markets.

Last week President Bush presented his FY 1991 budget to the Congress. There is a small increase in the overall USDA budget, and new initiatives for research, water quality, and food safety. Nevertheless, there are real limits on the amount of available Federal resources. As you know, the Gramm-Rudman-Hollings law calls for a reduction in the federal deficit to zero in FY 1993.

For FY 1991, which will largely be unaffected by the new farm bill, the budget specifies a baseline spending cut of $1.5 billion in farm price and income supports. However, even with this reduction, outlays for price and income supports are expected to be $2 billion more than in FY 90. Our goals for fiscal policy mean that greater savings must be achieved in the farm programs throughout the nineties.

We have not proposed specific changes for achieving budget savings but Chapter V of the President's budget summarizes some of the approaches we have in mind. Target prices and/or payment bases could be reduced; or payment limits could be tightened. All of these can affect deficiency payments. We prefer to work with the Congress in determining the most propitious way to the achieve the necessary budget objectives within a sound policy framework.

Mr. Chairman, I would now like to discuss some of the proposals in more detail.
Price and Income Supports

Our top priority in the price/income support area is to reduce the rigidity of present programs. We have learned how costly it can be to design programs based upon assumptions and expectations which do not materialize. We believe our new proposal is adaptable enough to deal with any eventuality, whether surplus or shortage.

Our production flexibility proposal uses the concept of normal crop acreage (NCA). We propose to make deficiency payments on historic cropping patterns, regardless of which NCA crop is grown in the future. This means that producers will make planting decisions among NCA crops based on market prices, not target prices. Production will then be more responsive to market conditions, i.e., we'll have greater production of crops in scarce supply and lower production of crops in surplus. This should also foster a greater use of crop rotations with their attendant environmental benefits. The cost to the nation's economy of vast idled acreage would be reduced, because we would permit planting on idle acres under certain specified conditions.

All of us have puzzled over how to deal with stockholding policies. We believe that our proposals will provide significant improvements in this difficult area. The basic thrust of our approach is that decisions by farmers on when to store and when to sell should be determined more by market forces and less by government decree. We propose to accomplish this by shortening the farmer-owned reserve (FOR) contract period to 9-12 months;
eliminating price or quantity triggers for entry or release; eliminating the required FOR minimum quantity levels; and establishing a standardized minimum CCC resale price for commodities acquired through price support activities. The effect of these changes will be to accommodate the storage of a considerable quantity of grain from one year to the next, but defer to the farmer decisions on when to store and when to sell. In addition, these changes will eliminate a complex array of adjustment formulas, rules, and regulations.

We are proposing that the formula for adjusting loan rates for feed grains and wheat be used also for cotton and rice. There is no sound reason to continue the inequities represented by the rice and cotton loan rate minimums. These changes will allow cotton and rice loan rates and market prices to be more reflective of actual market conditions.

We propose no changes in the soybean price support program. But soybean growers should benefit from our flexibility proposal under which soybeans will for the first time compete with other crops for acreage on the basis of relative market returns.

Milk price support adjustments in the dairy program have played a positive role in reducing the surpluses and high program costs that saddled the dairy industry just a couple of years ago. We offer modest revisions that will allow us more flexibility to respond to changes in supply and demand conditions, as indicated by the expected volume of dairy products acquired by the Government.
We propose changing the peanut program so that the support level is no longer a function of the cost of production. Peanut supports should be more consistent with other programs and more closely aligned with market prices. We also propose bringing the wool and mohair and honey programs into conformity with our program crops by shifting income support to the target price concept.

International Programs

Our proposals for export programs build on the progress that has occurred since the passage of the 1985 Act. We are proposing to extend the programs which have been instrumental in that task, and we are recommending legislative changes to strengthen other programs. After completion of the Uruguay Round all programs will be reassessed.

We propose reauthorization of the Export Enhancement Program (EEP) without mandated program levels or programming requirements. The EEP has proven an important part of our trade policy strategy to achieve a successful Uruguay Round. We want our competitors, especially the European Community, to know that we stand ready to use this program to the maximum extent. We want them to phase out their export subsidy practices which have severely distorted world markets for many years. Those subsidies have cost American farmers billions of dollars in exports and in income.

We also propose to extend the Targeted Export Assistance program and the Food Security Wheat Reserve. The 1985 Act
established a minimum annual program level of $5 billion for GSM-102 short-term credit guarantees and a maximum program level of $1 billion annually for GSM-103 intermediate-term credit guarantees for FY 1989 and 1990. We propose that these program levels be continued.

We are committed to helping to feed needy people in low-income developing countries. Many of our foreign food aid programs, including P.L. 480 and the Food for Progress Program, must be reauthorized this year. The Department is working with the Interagency Food Aid Subcommittee to develop legislative recommendations for these programs. We are particularly interested in revisions which will improve program operations and administration. Those will be forthcoming soon.

Conservation and Environment

Our conservation proposals extend and enhance the authorities in the 1985 Act, and the activities we have undertaken with other Federal agencies. We will focus on measures that maintain the long-term productivity of our agricultural resources, and measures that will stimulate the adoption of environmentally sound production systems. This can be done in most instances without imposing new regulations that could impair the profitability of our farmers. American farmers share with the rest of the Nation a longstanding concern for the quality of our environment and the conservation of our land and water resources. Through research and technical assistance, greater production flexibility, and targeting of key
problem areas, American farmers will become even better stewards of nature.

The authorization period for the Conservation Reserve Program (CRP) should be extended through 1995 and the focus of this program should be directed particularly at problems related to water quality and wetlands. An authorization level of 40 million acres is, in our judgment, adequate to address these problems.

Most water quality issues can be resolved through voluntary adoption of known production practices that reduce environmental risks. Research, technical and financial assistance programs now underway in USDA and in many states will encourage adoption of those practices. We are proposing an expanded effort in these areas. In particular, more effort will be required to address cropping activities in the vicinity of public water supplies, cropland in areas where dangerous runoff is conveyed directly into groundwater, areas that provide protection of wildlife habitat, and areas identified for conversion from intensive cropping under state water quality planning.

To respond to the loss of wetlands, we propose including wetland restoration as part of the CRP. Up to 2.5 million acres of cropped wetlands could be restored and protected under this program through the use of easements.

We have also recommended several changes in annual commodity programs that should reduce the use of agricultural chemicals. Our flexibility proposal will enable producers to plant a mix of
program crops on permitted acres without losing base history or deficiency payments. We also propose to protect base history when conservation crops such as forage legumes and grasses are planted but not harvested. Intensive cropping patterns should thereby be reduced, with a substantial gain in environmental benefits.

We also wish to foster improved maintenance of land idled under annual crop programs. Accordingly, we propose strengthened rules for planted cover crops, and we propose to cost share for the establishment of perennial vegetative cover on a portion of land idled under acreage reduction programs. This will reduce erosion and weed problems and improve water quality and wildlife habitat.

Increased tree planting is another objective of our CRP proposals. We propose that shelterbelts and windbreaks be established under less restrictive CRP rules. This will complement the Presidential initiative, "America the Beautiful," which will result in planting and maintaining 1 billion trees per year in urban and rural areas. This program will enhance stewardship of our Nation's natural resources, improve wildlife and fish habitats, and have atmospheric benefits such as offsetting increased emissions of carbon dioxide.

Farm Credit

The time has come to reform our farm credit programs by emphasizing that they should be consistent with a commercial, market-oriented industry. In other words, they should fill a
carefully defined credit niche; they should not be disguised welfare programs. Our Farmers Home Administration should provide targeted assistance to beginning farmers with demonstrated management capabilities. Greater emphasis should be placed on improved loan application and reporting procedures, and on financial disciplines that are required of commercial borrowers.

Farmers Home Administration (FmHA) credit programs will continue the shift toward the use of loan guarantees initiated in the 1985 Act. Under our proposal existing FmHA borrowers and beginning farmers who receive direct operating loans would face tighter loan eligibility and application requirements, limits on the period of eligibility for FmHA loans, requirements for demonstrated farming abilities, and a needs test for limited resource loans. Many of these changes would also apply to guaranteed operating loans in order to facilitate the eventful transition of FmHA borrowers to commercial sources of credit. The proposals would also strengthen FmHA's authority to subsidize guaranteed loans so as to make these loans more affordable and to encourage direct borrowers to shift to this source of funding.

The farm ownership loan program will be targeted to disadvantaged applicants, beginning farmers, and expanding family farms. More stringent requirements for loan eligibility and application procedures, borrowers' equity, and farming experience are added.

Finally, we are proposing that FmHA guaranteed loans be made eligible for the Farmer Mac secondary market that is being
established. This should facilitate an efficient FmHA guaranteed lending program offering the lowest possible interest rate to the farmer.

Disaster Protection

Multi-peril Federal crop insurance has not achieved the objectives intended when it was expanded in 1980. Consequently, in the President's FY 1991 budget we have proposed eliminating the program. Participation has remained under 45 percent of eligible acres and, until this past year, was under 25 percent, even though premiums and delivery costs are heavily subsidized. In addition, the program has not provided a viable replacement for ad hoc disaster legislation, which has cost an average of $600 million annually since 1981.

In an ideal world, Federal disaster protection for farmers would be of reasonable cost; provide producers with catastrophic protection in the event of a widespread disaster; not crowd out insurance services provided by the private sector; and provide farmers with a risk management tool that is equitable and does not reward inefficiency. These objectives have proven difficult, if not impossible, to achieve.

We, therefore, propose a standing disaster protection program to replace multi-peril crop insurance. This would provide the catastrophic protection farmers need and, hopefully, avoid costly and inequitable ad hoc legislation. Disaster payments would be available to producers in counties where crop yields fall below 65 percent of normal. Once a county is
declared eligible, individual farmers would receive assistance on the difference between the producer's harvested yield and 60 percent of the normal harvested yield for the county. The payment rate on eligible losses would be 65 percent of a 3-year average market price. Producers of 200 crops currently covered by Federal Crop Insurance, plus hay and forage, would be eligible. These crops account for over 93 percent of total U.S. cropland.

Private insurers may develop companion policies that provide protection not covered by this disaster assistance program. By providing protection on catastrophic losses, private insurers are better able to cover types of agricultural risks that are effectively insurable. Further, hail and fire insurance would continue to be available. Moreover, the disaster assistance program would provide protection to those producers who have not participated in the crop insurance program in the past because they felt it failed to address their risk management needs.

We must recognize that risk is a fundamental characteristic of agriculture. Farmers who protect themselves against risk will benefit therefrom when conditions are adverse. If the government attempts to compensate producers every time a loss is incurred, farmers' incentives to self-protect against loss from price and yield risks are reduced and the adverse effects of normal price and yield variation are magnified.
Marketing and Inspection Services

In the area of marketing and inspection of agricultural products, we have several priorities. The number one goal is to ensure a safe and wholesome food supply. Just last fall, we established new procedures within USDA to respond promptly to food safety problems and our FY 1991 budget includes a special food safety initiative. We have also established a close working relationship with the Environmental Protection Agency and the Food and Drug Administration in order to resolve issues such as pesticide tolerance. In addition, a comprehensive food safety proposal has already been announced by the President.

We recommend amending the Agricultural Marketing Agreement Act of 1937 to authorize civil fines and penalties against handlers for non-payment of assessments. Nearly 50 percent of marketing order violation cases involve failure to pay assessments.

Many of the activities carried out by the Animal and Plant Health Inspection Service (APHIS) represent services rendered to a particular individual or group importing plants or animals from foreign countries. In these cases, we need user fee legislation so that the user or person requiring the APHIS service bears the financial burden.

We also propose legislation to require that all our corn exports be officially tested for aflatoxin. This will help correct our tattered quality image in world markets.
Food and Consumer Services

We support reauthorization of our food assistance programs, which have become so important to the nutritional well-being of low-income Americans. Benefits of the Food Stamp Program will be fully funded and support for the Temporary Emergency Food Assistance Program (TEFAP) will be continued. This represents a substantial commitment of the Department's limited financial resources.

TEFAP should be reauthorized so that both surplus and purchased commodities may be donated. This program fills an important need for many low-income Americans who have difficulty using, or choose not to use, other food assistance programs. Funding of $120 million for purchased commodities and $50 million for administrative funding would be provided.

The Food Stamp Program is the cornerstone of our national effort to provide nutritional assistance to low-income Americans. Proposed Food Stamp legislation would strengthen program accountability because the needy are best served by strong programs administered with integrity. We support proposals that will increase family income, thereby decreasing the need for food assistance. We believe that Food Stamp beneficiaries should take the maximum advantage of child support services.

We support a major effort to improve food program administration by increasing coordination among programs that serve low-income Americans. We are working through the White
House Low-Income Opportunity Board and with other Federal agencies to achieve this.

Our proposals for food stamps also set aside special demonstration grants to reach out to homeless people. Most are eligible, yet few participate. We believe that innovative activities will increase their participation, improve their nutritional status, and help give them a better quality of life.

Science and Education

In the area of science and education, our proposals identify priority research and extension programs and provide additional funding authority to conduct a National Initiative for Research on Agriculture, Food and Environment.

A provision of the National Initiative would strengthen the ability of institutions with less well developed research capabilities to conduct advanced research and train the talent which will be required in the future in our agricultural sciences.

Scientists recognize the potential to solve agricultural problems ranging from animal diseases to environmental issues through the application of advanced biotechnology. In this regard, our provisions recognize the importance of genome mapping programs for crop plants and livestock species on a national scale and provide for USDA leadership in this area. Our proposal also recognizes that the development of non-food, non-feed uses of agricultural commodities is seen as a way to open new markets for U.S. agriculture and thereby strengthen demand.
With respect to environmental and health issues, our proposals recognize an important role for the USDA in research and extension education on food safety, rural water quality, global change and for environment and natural resources education. Sustainable agriculture practices are recognized as a means to address environmental concerns, and we propose to more effectively integrate such research into the land-grant system.

In view of political changes taking place around the world, and of the need to compete in world markets, we are also proposing to expand our international research and education programs and our international development activities through scientific cooperation and exchange programs.

Conclusion

Mr. Chairman, the 1990 farm bill proposals I have outlined today build on the market orientated international competitiveness initiatives of the Food Security Act of 1985.

While enhanced competitiveness is the major focus of our proposals, they were developed within the context of concern for the environment, food safety, nutritional needs of the poor, and first and foremost, the economic well-being of American farmers--family farmers.

We are committed to helping farmers identify and respond to new practices that allow them to reduce costs, increase profitability, support a safe environment, and produce a reliable supply of safe and affordable food. We do not perceive these
objectives to be incompatible if we deal with them in a sensible, objective, systematic manner.

In closing, Mr. Chairman, we stand ready to work with the Committee and the Congress to develop new legislation that will help U.S. agriculture and the American people meet the challenges and opportunities of the 1990s.