

**Statement by
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Before the House Budget Committee
U.S. House of Representatives
March 14, 2001**

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 overarching 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 on-going 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 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.