U.S. House of Representatives

Committee on Agriculture

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February 21, 2006

The Honorable Jim Nussle, Chairman
House Committee on the Budget
309 Cannon House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), we are including below the recommendations of the Committee on Agriculture with respect to agriculture programs within the Committee's jurisdiction.

The Committee on Agriculture is dedicated to ensuring that the Federal government continues to promote policies that will keep American agriculture and rural communities strong and our citizens healthy and safe. We believe that our current policies—as reauthorized and modified by the 2002 farm bill—do precisely that. These policies fit together into a framework that represents carefully crafted compromises and thoughtful tradeoffs among the commodity, conservation, environmental, food and nutrition, trade, rural development, research, and energy programs under our jurisdiction.

Current authorizations for most farm bill programs expire <u>just one year from now</u> in 2007. We see no reason to make additional program changes in the last year of the 2002 farm bill—especially as we just reduced funding for a number of non-dairy agriculture programs by $3.7 billion over five years in the FY 2006 budget reconciliation act. (The act had a net reduction of $2.7 billion over five years after the increased costs of reviving the MILC program are included.) Producers (and their lenders) need the stability provided by the 2002 farm bill provisions for as long as possible. We clearly need to let programs operate as designed for the remaining months of their current authorizations.

Changes in market conditions reinforce the perspective that this year is not an appropriate time to reduce the farm income safety net even more. In its first farm income forecast for 2006, released on February 10, USDA forecast that (a) net farm income for 2006 at $56 billion will be down $16 billion (or 23%) from 2005 and down $26 billion (or 32%) from its record level in 2004, (b) direct government payments although declining by 20% would be equivalent to one-third of net farm income, (c) 2006 crop receipts would be down $5 billion from last year, down $8 billion from two years ago, and at their lowest level since 2002, and (d) total farm sector expenses would be, at $229 billion, at a record high level for 2006, up $8 billion from last year (3%) and up $19 billion (9%) from two years ago. If this forecast is accurate, total farm sector expenses will have increased by $36 billion or 19% since 2002.

Further, future government costs for agriculture programs would need to increase significantly to offset the much-lower-than-expected spending on agriculture programs to date. Through FY 2005 (the most recent year when actual spending is known), cumulative total costs of Commodity Credit Corporation (CCC) and NRCS conservation programs are $17 billion lower than CBO projected when the 2002 farm bill was passed and commodity program costs were $19 billion lower. CBO's latest baseline shows actual and projected cumulative costs through FY 2008 (roughly corresponding to the 2002 farm bill authorization period) $6 billion lower for total CCC and NRCS conservation programs and $11 billion lower for commodity programs (even before the additional reductions for the recent budget reconciliation bill, which are not included in the CBO baseline, are added in.)

Some of these savings have been through higher than expected prices and some have been through legislative action. In addition to the previously noted budget reconciliation savings, appropriations acts have also increasingly reduced mandatory funding for conservation, rural development, trade promotion, research, renewable energy, and forestry initiatives. For FY 2006, the reduction was $1.7 billion. Enacted energy legislation is projected to increase corn demand and prices by promoting ethanol production—thereby further reducing program costs.

Given all these factors, it would only be prudent that any consideration of program changes—whether driven by budget or policy concerns—should be reserved for the 2007 farm bill debate. Considering budget-driven changes in the context of farm bill reauthorization would lessen—if not eliminate—the technical scoring problems that were so troublesome in last year's reconciliation debate when the reconciliation period, program authorization period, and baseline period covered different years.

Rest assured that this Committee will have a full, fair, open, and comprehensive farm bill debate in 2007 with participation by all stakeholders. We want to ensure that our programs deliver appropriate benefits and do so as effectively and efficiently as possible. We understand current budget concerns and are prepared to do our part—in concert with other committees—to address these concerns. We are not afraid of consolidation and change if such actions are needed. If we are to meet these challenges, however, we must have the time to do it right without rushing to make premature changes just before a new farm bill.

As a first step, we have started field hearings to hear from current stakeholders their perspectives on how well current programs are working. Our first round of full-committee field hearings was held in North Carolina and Alabama in early February and our second round will be in California and Nebraska in early March. We anticipate several more rounds of field hearings at the full committee level and a number of subcommittee field hearings during the remainder of 2006. We will also hold a series of hearings here in Washington starting in early 2007 (as was done before the 2002 farm bill).

Producers are telling us—through hearings as well as other channels—that the farm income safety net is not only an especially important Agriculture Committee program but that it is working well. When prices are high, income support is low. When prices move lower, income support increases as the need increases. Producers (and their lenders) need this stable farm income safety net that allows them to do the long-range planning and make the investments needed to compete in an increasingly global economy. We are five years into a six-year farm bill—more than 80% across the stream—and this far across is not the place to change either horses or the farm income safety net.

We understand that our nation faces significant budget pressures and that the Congress has a responsibility to address those pressures. All government safety net programs—not just the farm income safety net—need to be sustainable. The burden of addressing the nation's budget pressures needs to be broadly shared to be effective. But we need to choose our time for addressing these pressures and 2006 is not an appropriate time for doing so through further changes in agriculture programs.

We recognize, Mr. Chairman, what a difficult task you and your committee have in putting together a budget resolution. We want very much to work with you and to do our part in furthering the excellent relationship that our two committees have established and maintained over the years.

Sincerely,

Bob Goodlatte
Chairman

Collin C. Peterson
Ranking Minority Member

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February 16, 2006

The Honorable Jim Nussle
Chairman
House Budget Committee
309 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Nussle:

In addition to the Agriculture Committee's letter submitted by Chairman Goodlatte and Ranking Member Peterson, I submit these views regarding agriculture programs and the budget.

Last year, for the first time in eight years, Congress approved legislation reforming mandatory spending programs, saving $40 billion over five years. Through the appropriations process, we reduced non-defense spending and held total discretionary spending growth to 1.8 percent. These were steps in the right direction when it comes to spending control, yet the Congressional Budget Office anticipates a $337 billion deficit in FY06 and a $270 billion deficit in FY07.

Good fiscal policy is also good farm policy. In order to further reduce the deficit, it is essential that the Budget Resolution again instruct committees to find savings in their programs through reconciliation. While the Budget Committee should consider the fact that our committee will reauthorize Department of Agriculture programs next year in a new Farm Bill and that agriculture programs are a small portion of total mandatory spending, I cannot ask that the Agriculture Committee be excluded from the process.

I strongly support maintaining the core policies of the 2002 Farm Bill through the life of the law. Farmers in the 19th District of Texas and across the country have based their long-term plans on these policies being in place through 2007, and Congress must keep its commitment. However, there are opportunities to find savings without impacting the core policies of the Farm Bill, and we must also consider all program areas under the Agriculture Committee's jurisdiction.

For example, our committee included important reforms to the food stamp program, our largest area of mandatory spending, in its reconciliation proposal last year. Unfortunately, these reforms were not included in the final Deficit Reduction Act. We should continue to provide assistance to those in need, but Congress can do better when it comes to ensuring benefits are not going to those who are ineligible or to those who are not U.S. citizens. Our proposed reforms would have helped achieve these goals and would have saved nearly $1 billion.

I understand the Budget Committee faces difficult work this year in setting Congress on course to reduce the deficit and maintain economic growth. Agriculture should not bear a disproportionate share of budget savings, but we can find contributions to make toward deficit reduction.

Sincerely,

Randy Neugebauer

Randy Neugebauer

RN/krb

ADDITIONAL VIEWS TO ACCOMPANY
Letter Transmitting FY 2007 Budget Views and Estimates
Of the House Committee on Agriculture

The Committee on Agriculture Views and Estimates letter does a fine job of explaining the importance of programs in its jurisdiction. It also makes it clear why the 2007 Budget discussion would not be an appropriate occasion to make further cuts in those programs. While we support those views, we take this opportunity to add some detail regarding these programs in light of the fact the President has recommended a number of specific, damaging cuts.

The President's proposals for agriculture are largely the same as those dismissed last year by Congress during the reconciliation process.

The President has not only repeated his proposal to eliminate Categorical Eligibility for Food Stamp recipients (which would cut 300,000 people off from Food Stamps and was rejected by Congress), he also has proposed the elimination of the Commodity Supplemental Food Program. This would terminate direct food package delivery to 420,000 seniors and 46,000 low-income women, infants and children, which is done at a cost of less than $20 per participant per month. The proposal would be a particular hardship on elderly and low-income rural participants.

The President's budget proposal also cuts funding for farm bill conservation programs. It restricts the program that protects farm and ranchland from urban encroachment and cuts funding for wildlife habitat by more than half. Watershed programs designed to protect life and property have been zeroed out in this budget. In addition, the Administration's long overdue call for full enrollment in the Wetlands Reserve Program cannot make up for the wetlands that have been lost or whose benefits have not been fully restored because the program has been so neglected.

In his **State of the Union** address, the President called for energy independence and endorsed the use of switch grass as an energy source. In direct conflict with that statement, however, the President zeroes out funding for the Bioenergy Program -- a program that encourages the growth of our domestic biodiesel industry. We agree with the President's State of the Union statement but are concerned that his budget directly contradicts the goal of energy independence he espoused..

The proposals to cut farm program spending appear to be part of the President's strategy of sacrificing farm support in order to blindly pursue access to international markets that are of questionable value to American agriculture. This sacrifice is especially acute, when, as noted in our letter to the Budget Committee, the Department of Agriculture (USDA) projects farm income to fall 23 percent, farm payments to decline by 20 percent and production expenses to increase by 19 percent since 2002.

Moreover, these proposed cuts fall especially hard on those producers who were struck by disaster last year. The Agriculture Committee had the opportunity to provide assistance to those affected, but chose not to do so, based on assurances that the Administration's program of assistance would be forthcoming. Not only has there been no program for production or economic losses, but these budget cuts are salt in the wounds opened by disastrous weather conditions and high energy costs.

Through FY2005, USDA's commodity and conservation programs have cost $17 billion less than was projected when the Farm Bill was passed in 2002. Spending has declined by more than any budget reductions proposed by the President would have caused. The lesson from this experience is that, left to run by itself, this Farm Bill will provide needed assistance to producers and do so in a reasonable and cost-conscious manner.

The President's proposal to cut agriculture is poorly timed because it fails to acknowledge the particular uncertainties American producers face today while they await the completion of multilateral trade negotiations. Talks under the Doha Round are focused very closely on agricultural policies and the US as well as other nations have proposed dramatic changes in the domestic policies of participating nations, as well as in import and export policies. A strong case can be made that no changes should be made in Farm Bill policies until the Doha Round has been completed and the rules that apply are clear. Not only should the Budget Committee firmly reject the President's proposed cuts in farm policy, the Congress should also enact legislation that keeps the current Farm Bill in place until trade negotiations are complete.

The proposals in the President's budget are poorly conceived and badly timed. The Committee on the Budget should reject them.

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[illegible]

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Congress of the United States
Washington, DC 20515

February 17, 2006

The Honorable Jim Nussle, Chairman
House Committee on the Budget
309 Cannon House Office Building
Washington, DC 20515

Dear Mr. Chairman:

We are writing to share additional views with respect to agriculture programs within the Committee on Agriculture's jurisdiction.

We believe that government spending is out of control, and it is imperative that Congress control spending. Sadly, the $318 billion budget deficit represents 2.6 percent of the gross domestic product, and American households are paying more in taxes than they have in any time since the Second World War. The responsible approach to solving this problem is to balance the budget.

While energy costs are up and market conditions may be forecasted to be down, it is important to remember that agriculture has had the best three years in memory. While no one *wants* to adversely affect agriculture by reducing the farm income safety net, agriculture has never been better positioned to take their fair share of the pain. We have heard testimony from farmers to this end, accepting the fact that the federal budget needs to be balanced, while asking that they only take a reasonable sacrifice.

Finally, we understand the technical difficulties of making changes to the commodity title and believe it is important to remember that there was one very large area of program spending that, in the end, did not receive reforms or reductions in the Deficit Reduction Act, the Food Stamp Program. Should the Agriculture Committee be charged with writing reconciliation instructions for Fiscal Year 2007, we would have the opportunity to once again consider reforms to the Food Stamp Program.

On June 24, 2005, Agriculture Secretary Mike Johanns announced that the error rate in food stamps had reduced to 5.88 percent. This 34 percent improvement in five years resulted in an aggregate decrease in erroneous benefits of nearly $1.4 billion. There is no reason this Congress should not require optimum efficiency in the Food Stamp Program, while making other much needed reforms. Pushing the accuracy rate to 100 percent could potentially save up to $2.05 billion annually from the federal budget.

We recognize that the right choices are usually the hard choices when it comes to formulating a budget and stand ready to discuss our views with you at any time.

Sincerely,

Steve King

[illegible]

Virginia Foxx

Marilyn Musgrave