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AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR 1982

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES

JAMIE L. WHITTEN, Mississippi, *Chairman*

BOB TRAXLER, Michigan
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PART 1

AGRICULTURAL PROGRAMS

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Printed for the use of the Committee on Appropriations

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AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1982

THURSDAY, FEBRUARY 19, 1981.

TESTIMONY OF THE SECRETARY OF AGRICULTURE

WITNESSES

HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE
RICHARD E. LYNG, DEPUTY SECRETARY-DESIGNATE
STEPHEN B. DEWHURST, BUDGET OFFICER
LAWRENCE WACHS, DEPUTY BUDGET OFFICER

Mr. WHITTEN. The committee will come to order.

I would like to take this opportunity to welcome to our subcommittee four new members—Danny Akaka from Hawaii, Wes Watkins from Oklahoma, Virginia Smith from Nebraska, and Jerry Lewis from California. All four of you have had a long time interest in agriculture which will be of great benefit to the Committee. We welcome you.

We have with us today the Secretary of Agriculture, Mr. John R. Block. We would like to have your biographical sketch included in the record at this point as well as the biographical sketch of the Deputy Secretary, Mr. Richard E. Lyng.

[The biographical sketches follow:]

JOHN R. BLOCK

John R. Block was designated secretary of agriculture Dec. 23, 1980, by President-elect Ronald Reagan. He had been Illinois director of agriculture since 1977.

Block was born Feb. 15, 1935, in Gilson, near Galesbury, Ill. He graduated from the U.S. Military Academy, West Point, N.Y., in 1957, and served three years active duty as an infantry officer. He has operated the family-owned Block Farms, Galesburg, since 1960. Since he began managing the farm, the operation has grown from 300 acres producing 200 hogs per year to 3,000 acres with a yearly production of 6,000 animals.

While Illinois director of agriculture, Block led a three-week people-to-people fact-finding mission to the Soviet Union, Poland, Hungary, Austria and Switzerland in September 1980. He helped conduct a market survey in Taiwan in 1979 and was a member of an agriculture export team which traveled to China and Japan in 1973 and 1979. He also supervised the Illinois Department of Agriculture's export offices in Brussels, Belgium and Hong Kong.

Block received the Illinois governor's outstanding achievement award in 1980; the Illinois Cooperative Extension Service's meritorious service award for outstanding contributions to Illinois agriculture in 1980; and the U.S. Jaycees outstanding young farmer award in 1969.

He has been involved with and has held office in a variety of agriculture related groups and advisory councils.

Block is a physical fitness advocate who jogs daily. He finished the 26 mile 1980 Boston Marathon with a time of 3 hours and 12 minutes.

He is married to Sue Rathje. They have two daughters and a son.

RICHARD E. LYNG

Positions held

December 1979–January 1981.—Consultant, Food and Agriculture (from July 1980 until November 4, 1980—National Co-Director, Reagan/Bush Committee; from November 12, 1980 until January 1981—Transition Team Leader, Department of Agriculture, Commodity Futures Trading Commission, and Farm Credit Administration).

July 1973–November 1979.—President, American Meat Institute, Washington, D.C. (during Fall 1976, took 3 months leave to be National Director, Food and Agriculture, President Ford Committee).

February 1969–February 1973.—Assistant Secretary, United States Department of Agriculture (Marketing and Consumer Activities).

February 1967–February 1969.—Deputy Director and Director, California State Department of Agriculture, Sacramento, California.

October 1945–February 1967.—President, Ed. J. Lyng Company, Inc., Modesto, California (a family seed and bean production and processing company).

January 1942–October 1945.—U.S. Army—30 months in South Pacific (Guadalcanal—Bougainville).

June 1940–January 1942.—Fieldman, Ed. J. Lyng Company, Inc., Modesto, California.

Education

University of Notre Dame, PhB (cum laude) 1940.

Honors

Animal Agriculture Award, American Meat Institute, 1979; Honorary National Member, Alpha Zeta Honor Fraternity, 1974; Honorary Member, Rotary International, Modesto Club since 1967.

Directorships

Tri/Valley Growers, San Francisco, 1975 to January 1981; Chicago Mercantile Exchange, 1975 to 1979; Refrigeration Research Foundation, 1974 to 1979; Agribusiness Advisory Board, University of Santa Clara, 1974 to 1979; Commodity Credit Corporation (USDA), 1969–1973; USDA Graduate School, 1970–1973; Board of Trustees, Foundation for American Agriculture, 1975 to present.

Current activities

Member, Agriculture Committee, Chamber of Commerce of the United States—1978 to present.

Member, Animal Health Committee, National Academy of Science—1976 to 1980.

Other activities—past

Chairman, Food Industry Sector Advisory Committee (For Multilateral trade negotiations)—1975 to 1980.

President, Modesto (CA) Chamber of Commerce—1952 to 1953.

President, California Seed Association—1957 to 1958.

Director, Pacific States Seed Association—1960.

President, Modesto (CA) Rotary Club—1961.

Chairman, Stanislaus County (CA) Republican Central Committee—1961 to 1962.

Chairman, Interstate Pest Control Compact—1968 to 1969.

Chairman, USDA Child Nutrition Advisory Board—1971 to 1973.

Member, USDA Foreign Animal Disease Advisory Committee—1977 to 1979.

Listings

Who's Who in America, Who's Who in the World, International Who's Who, Who's Who in Politics.

Personal

Born June 29, 1918—San Francisco, California.

Married June 1945—Bethyl Ball.

Daughters: Jeanette Lyng Robinson—Modesto California, Marilyn Lyng O'Connell—Abilene, Texas.

OPENING REMARKS

Mr. WHITTEN. We welcome you, Mr. Secretary, and we also welcome back our good friend, Dick Lyng. His being here reminds me of the time I spoke to a group on one floor of a Jackson, Miss. hotel and was asked to go down the stairs and speak to another group. I

told them it was the first time I got to say what I forgot to say the first time.

We are glad to have you here. We remember you well and we appreciate your friendship.

We are glad to have you both here.

I realize in the presentation made by the President last night and in the statements that you have submitted, which I have read, that it would be March 10 before we have the details on the President's budget proposals. For that reason, I think perhaps the greatest contribution we can make here today is to review some of the situations that have existed in the past.

I have had a number of folks ask why I always continue to hold the chairmanship of the Subcommittee on Agriculture. I quit the farm when I was 12 years old, but I have become convinced that agriculture is basic with everything in our economy. The records clearly show that the standard of living of practically all countries, and even of individuals, is based on how much of their time they have to spend providing for the basic things such as food, clothing, and shelter.

To me agriculture is the foundation of our country.

MONEY VERSUS WEALTH

As we listened to the President last night and as we read the press, to me at least in such study of economics as I have had, we seem to be getting money, which is a medium of exchange, mixed up with wealth.

Real wealth is the material things, the timber in our forest, the harbors, the rivers and streams, the buildings and highways, and all these things that go to make our country great. We have more resources than any other nation in the world. That is your wealth, but I agree that our financial troubles are serious indeed.

When I saw Mr. Mahon was going to retire, and I was going to succeed him as chairman of the Appropriations Committee, I had a study made of our financial situation. It developed that our dollar has depreciated more than 50 percent since 1967. Fifty-eight percent of the money spent by this Government bypasses the annual review of the Appropriations Committee. The study further showed that in 36 out of 37 years appropriation bills had been below the budget. The growth in spending was through entitlements and contract authority and indexing. I agree that we need to stop that.

The thing that was noticeable, and today too in your statement, the part that agriculture plays in getting our country going again is played down, if even mentioned at all.

The records of our Committee show that a bigger and bigger share of the consumer dollar is going to industry and labor under existing laws, leaving less and less for agriculture. Those engaged in agriculture are the biggest and best market that industry and labor ever had. They have to buy at this inflated price that industry and labor get by having a bigger share of the dollar. The costs are up and the farmer is left with what is left of the consumer dollar.

The subsidy frequently, to me at least, seems to be replacing to those engaged in agriculture what is going to the other two major segments—industry and labor—under existing conditions.

When you say the Farmers Home Administration made more loans in the last 3 years than in the 40 years before that, to me it means one thing which is different from what you meant. You have to show you cannot get the money anywhere else before you borrow from Farmers Home, which means agriculture is not in a very good financial condition. If the Production Credit Associations and the banks say they will not lend the money, then Farmers Home has to step in. What do you do to meet that problem? You recommend that Farmers Home be cut back. I am one of those that strongly believes that we have got to do something to bring our money in line. I was cochairman of the group that led the study on the congressional budget process.

I served on the Budget Committee. I know we have got to do something to bring our money in balance. But the best we can hope for is to level off. Agriculture and industry and labor are partners, and we are in this thing together. I hope you will, Mr. Block, see to it that this is stressed in the decisions at highest levels.

If we wear our country out, we are lost. As long as we have a rich country, our children could set their own money or financial system. That is the thing I find missing in both speeches, the reference to wealth as opposed to money.

I hope you will kind of keep that in mind.

I shall not question you about too many of these items. Many of these reductions which you suggest probably are sound in view of the reports by our investigators. Some of the reductions may not be sound. But we all agree that something has to be done. We want to hold spending down ourselves, but we also want to keep production up because the best we can hope for is to level off.

With a $900 billion debt, you cannot hope to repay it with a hard-to-get dollar. With an unfavorable balance of trade we are going to have to give them something to get our money back, and agriculture and food is the big thing that we have to offer. With agriculture we have the advantage over everywhere else in the world.

This is where my prime interest is, and we are glad to have you before the Committee.

Having read your statement, as I am sure the other members have, we would like for you to proceed as you like and touch on the high points. We welcome you here, and I look forward to a relationship which I have enjoyed in times past where we can discuss mutual problems and try to work them out, because that will be our desire. We look forward to working with you and your staff working with our staff. My colleagues have the same attitude.

My purpose in raising these things is that they might be touched on by you. If I forget to ask the question, you might not think to give the answer.

Statement of the Secretary

Secretary Block. I am delighted to be here today and have a chance to testify before this Committee and get to know the members of the Committee better. I want to introduce to you, as you have already mentioned, Deputy Secretary-Designate Dick Lyng, on my right, from our Department of Agriculture, and on my left I have our Budget Officer, Steve Dewhurst, and I might also add

that I have asked Dick Lyng to supervise our budget activities in the Department of Agriculture. It is under his supervision, so it could be that I will turn to him on occasion here this afternoon.

Mr. WHITTEN. Certainly. We understand that.

We realize that you have not had much time down at the Department, but this is a good time to get acquainted. We thoroughly understand, and may I say the record will come back to you for your additions or corrections, so that the full story may be told. That is the way we work.

Secretary BLOCK. Thank you. I appreciate that very much.

You said that you have read my statement. I would like to ask if you want me to read it again or talk in brief?

Mr. WHITTEN. I was going to leave it up to you. Frequently your side likes to hit the highlights. The full statement will appear in the record, but we are not restricting you in the least.

Secretary BLOCK. Frankly, I originally was going to read it, but I would just as soon not if you would just as soon not hear it. Here it is.

Mr. TRAXLER. I think this gentleman is going to be a very fine Secretary of Agriculture.

We congratulate him. You are one of the wisest Secretaries I have ever seen.

Mr. WHITTEN. We are not trying to get you to shorten it. Stress the things you would like to. You may read all of it and stress what you wish to.

AGRICULTURAL CONCERNS TODAY

Secretary BLOCK. The first issue that I would stress is you have said you are very partisan for agriculture. I want you to know you are no more partisan than I am. I think we can be partisan for agriculture together, and I think the other members of the committee are partisan for the agricultural industry.

I too am very much concerned and troubled by some of the problems in agriculture today. We have lost more family farmers than we would like to lose.

There have been a lot of estimates to why we have lost them. Some say the tax system. Some say the farm programs. Personally, I think that they have been forced off the land because of low income and low margins and low prices.

Mr. WHITTEN. I hate to interrupt. To take a little bit of issue here, I think that in farming today few people are willing to work other than the owner. It is hard to get farm labor. You have to have a pretty good size operation to afford the machinery. I have tried to keep myself from saying "small farmer." I try to say "part-time producer." The record before us shows that more than 50 percent of the farmers do work on the side and have other income, because they have to. I frequently say, and I will quit with this, that I do not want to make folks return to being small farmers, they would starve to death. I hate to see the times change, too, but I do not want people to be dependent on what you make as a small farmer, because it is impossible to make much of a living.

Secretary BLOCK. We just have come off of a year with serious droughts in many parts of the United States and this has put a number of farmers in a very difficult position. There is no way we

can predict precisely what kind of year we are going to have weatherwise or pricewise but it is my opinion that we are in a position now for a reasonably good wheat crop. Although we have drought problems, this year's soybean, potato and peanut crops are not lost. We can still raise a good crop yet this year providing we get timely rains.

I am fairly bullish on this year's agriculture possibilities. Exports look like they will be strong, stronger than last year. Once again, we have reduced some of the surpluses in the industry, so I think the demand can help keep prices stronger than they were, and so I am reasonably bullish on agriculture for this coming year and in the foreseeable future.

There are all kinds of other potential ramifications. We could always be faced with drought. We could have international problems that could hurt us. So, once again, we have to appreciate the hazards that face agriculture and the uncertainties, and I think they are more pronounced than in practically any other place.

It is just something that we live with as farmers day in and day out. I guess we kind of accept it, but sometimes it works against us.

I would like to open this up for questions rather than make any additional statements now and be glad to answer questions on any issues that you might choose to ask.

[CLERK'S NOTE.—The Secretary's prepared statement appears on pages 91 through 98.]

AGRICULTURAL EXPORTS

Mr. WHITTEN. You have been widely quoted as placing a very high priority on agricultural exports. How would you propose to use the resources of the Department of Agriculture to further U.S. exports?

Secretary BLOCK. Mr. Chairman, I would propose to, first, make sure that our domestic agricultural programs are consistent with the goal of maximum exports, and, second, to get the most out of existing programs and authorities, both domestic and foreign-oriented, in terms of trade expansion for U.S. producers.

This means farm programs that permit farmers to compete in the world market; it means the best use of the mechanisms of the Commodity Credit Corporation for export growth. It means a closer working relationship between the Foreign Agricultural Service, which has primary responsibility for foreign market development, and the Agricultural Marketing, Federal Grain Inspection, Food Safety and Quality, and Animal and Plant Health Inspection Services, and the Office of Transportation. The activities of each of these agencies bear to some degree on agricultural trade, which needs to be a factor in their decisions.

The resources appropriated specifically for foreign market development work are small in relation to both the Department budget and the value of our agricultural exports. In using them, I expect to continue the shift in emphasis toward the centrally-planned and developing economies, where the potential is great and government participation in creating and expanding a market can have the greatest impact. I plan to encourage export participation by smaller U.S. companies and increased attention to processed products, where value is added by work done in this country, rather than

overseas. I will pay careful attention to the U.S. agricultural trade offices in order to strengthen their role as we learn from experience. I propose to continue to assist exporters with overseas trade exhibits and similar events, buyer-seller linking systems, and market information.

Mr. WHITTEN. How do you visualize the role of CCC in the promotion of agricultural exports, and what role would the General Sales Manager play?

Secretary BLOCK. Mr. Chairman, I visualize the agricultural export promotion role of the CCC as a support mechanism to maintain and expand established commercial agricultural export markets and to provide new opportunity for exports in markets not yet opened to U.S. agricultural trade. This role will be carried out by the export credit programs of CCC and will have the dual benefit of supporting U.S. farm income and strengthening the dollar. The General Sales Manager will be at the forefront of this continuing promotion of agricultural exports. That role will be to exploit every appropriate opportunity to support and expand the agricultural export base.

TRANSFER OF AGRICULTURAL ATTACHES TO STATE DEPARTMENT

Mr. WHITTEN. There have been reports that proposals are under consideration within the new Administration to transfer the agricultural attaches to the State Department. What would your position be on such a proposal?

Secretary BLOCK. No such proposals are being considered and I would be strongly opposed to any such suggestion. USDA has developed the most skillful and experienced team of specialists ever to represent U.S. agricultural interests overseas during these past 25 years. It is a system that has and is working most effectively as witness the outstanding success of the U.S.A. in capturing a larger share of world agricultural trade. This could not have been accomplished with officers that are unlikely to be willing to devote a full career to this country's major agricultural interests.

AGRICULTURAL TRADE OFFICES

Mr. WHITTEN. What are your feelings with respect to the agricultural trade offices that we have overseas? For example, are there too many or are there too few? Are they in the right place or the wrong place? And, how might their role be changed in the coming year?

Secretary BLOCK. Mr. Chairman, I feel the agricultural trade offices are proving to be successful in carrying out the mission in the Agricultural Trade Act of 1978. We have one more we want to open to cover the North Africa trade area. We have no more planned until we evaluate, within the next year, those in operation to determine if they are in the proper locations and whether or not we need more, or, less. Part of the evaluation process will be to determine if the trade office role needs to be changed.

COOPERATOR PROGRAMS

Mr. WHITTEN. What is your position with respect to the cooperator program, and how do you feel this program could be improved?

Secretary BLOCK. Mr. Chairman, I feel we have a successful program which is in line with current administration goals of expanding exports; and it is a good example of government and industry working together toward a common goal. Over the years, increased financial support by the farm community has demonstrated the U.S. producers' solid commitment to the program. In order to expand our exports, we have been trying to take advantage of new emerging market opportunities while maintaining our solid achievements in Japan and Western Europe. To improve the program, we need adequate flexibility to be able to adapt to new market environments. We may, for example, need to encourage the construction of marketing and processing facilities in potential markets which lack infrastructure, such as Nigeria, Malaysia, Mideastern and Latin American countries. Special attention also should be given to the P.R.C. Another means of improving the program would be to devote some additional resources to the development of markets for processed agricultural products, with the idea of creating additional nonfarm jobs in the United States while at the same time expanding our exports. We also feel the need to work with U.S. agribusiness firms and act as a catalyst to open opportunities for them while encouraging those firms to make infrastructural investments in the countries I mentioned a moment ago.

Mr. WHITTEN. There has been some controversy over the emphasis on developing markets in connection with the cooperator program and the almost abandonment of existing markets. Where do you feel the emphasis of the cooperator program should be placed?

Secretary BLOCK. Mr. Chairman, our major thrust for many years has been aimed at Japan and Western Europe. These markets have grown to be indispensable to U.S. agriculture. In recent years there has been some feeling that greater emphasis should be given to potential markets outside of Japan and Western Europe. We agree that we should take advantage of every opportunity possible, but we must hold onto markets where we are already established. Therefore, our major emphasis will continue to be placed on Japan and Western Europe, our most important markets. To the extent funding is available, we will maintain our efforts to penetrate emerging markets.

ROLE OF PUBLIC LAW 480 IN MARKET DEVELOPMENT

Mr. WHITTEN. What role do you feel the Public Law 480 program can or should play in the field of market development?

Secretary BLOCK. Mr. Chairman, I see Public Law 480 as a continuing tool in long-term development of new markets for U.S. agricultural exports. Moreover, I consider the Title I concessional sales program under which different financial terms can be granted on our commodity sales agreements as a critical component to a well functioning export sales program. By allowing the Department the flexibility to establish different financial terms on our commodity sales agreements, Title I facilitates access to non-traditional markets and helps to maintain and increase our market share.

EFFECTIVENESS OF PUBLIC LAW 480 AS A MARKET DEVELOPMENT TOOL

Mr. WHITTEN. From your perspective how effective has the Public Law 480 program been as a market development tool in recent years?

Secretary BLOCK. Mr. Chairman, my perception of the Public Law 480 program is that it can and has been an effective market development tool. I believe this perception is justifiable given our past experiences with Korea, Indonesia, Sri Lanka and Pakistan. These successes notwithstanding, I think that the Department's efforts can be improved in several areas. For example, I see a clear need for better information on the sales terms of our competitors and their commodity sales activities in developing countries. Also, I see a need for strengthening the credit terms on countries that clearly have the ability to finance their imports on commercial terms. In addition, I feel that continued emphasis should be put on linking our cooperator activities with Title I programs in the field.

TERMINATION OF THE EXPORT CREDIT SALES PROGRAM

Mr. WHITTEN. Two years ago, the administration terminated the CCC export credit sales program as a means of creating a temporary reduction in budget outlays. This program was regarded by many as being a highly important export tool. What are your thoughts on this program?

Secretary BLOCK. Mr. Chairman, the Export Credit Sales Program providing short-term direct credit for export financing was replaced by the Export Credit Guarantee Program. These guarantees have worked well, relying on the private sector to directly provide financing. There is currently announced guarantee coverage of over $1.5 billion and additional requests pending review within the Department totaling over $400 million by only the middle of the second quarter of fiscal 1981. During all of fiscal 1980 the CCC export credit programs provided only $1.8 billion, so I do not think agricultural exports have been impeded by the loss of the short-term direct credits.

THE EXPORT CREDIT GUARANTEE PROGRAM

Mr. WHITTEN. The Department now operates an all-risk loan guarantee program. How do you view this program as an export tool, and would you propose to expand the program during the coming year?

Secretary BLOCK. Mr. Chairman, I view The Export Credit Guarantee Program as an effective tool to promote agricultural exports. Thus far in fiscal 1981 the program has provided financing guarantee coverage for more than $1.5 billion in exports. The additional $435 million in requests for financing guarantees pending within the Department will bring us very close to the Department's existing $2 billion ceiling on the program by the end of the second quarter of fiscal 1981. We will closely look at the current ceiling and the export demand situation to see whether the current ceiling needs to be raised.

EMERGENCY FOOD RESERVE

Mr. WHITTEN. During the past year an emergency food reserve has been established. What are your feelings about this food reserve, and under what terms and conditions would you use it?

Secretary BLOCK. Mr. Chairman, I believe the existence of the food security wheat reserve greatly strengthens the ability of the U.S. to respond to urgent emergency food shortages overseas. The terms and conditions under which the food security wheat reserve would be used are to provide emergency food assistance to developing countries when domestic U.S. wheat supplies are so limited that wheat cannot be made available under the regular Public Law 480 program; and to provide urgent humanitarian relief in a developing country or countries which suffer a major disaster. Up to 300,000 tons of wheat may be released from the reserve only under circumstances of unanticipated and exceptional need, and the normal means of programming the commodity would be untimely in responding to the emergency.

TRADE BARRIERS

Mr. WHITTEN. Many major industrial countries in the world export their products rather freely to the United States, however, we in turn are by-and-large either prohibited or restricted severely in our agricultural exports to them. What are your goals with respect to the opening of some of these doors?

Secretary BLOCK. Mr. Chairman, I propose to continue to focus attention on and seek elimination of the many non-tariff barriers to trade maintained by other countries that restrict the access of U.S. agricultural commodities.

The Department is actively pursuing this objective both bilaterally and multilaterally. Specific examples of our bilateral efforts to remove or reduce trade barriers include our consultations with the European Community on access of certain horticultural items; equivalency of animal health and meat inspection procedures; the use of hormones in livestock and poultry rearing; and the continued access of U.S. oak logs and lumber. With Japan, part of the trade concession received during the Multilateral Trade Negotiations included provision for continued consultations on enlarging the Japanese market for both meat and citrus products. Additionally with Japan, the Department is meeting with Japanese officials under the auspicies of a joint agreement on standards, testing and certification activities. In the multilateral context, the U.S. along with nearly all our major trading partners including Japan, the EC and all of the member states, is a signatory to the GATT Standards Code. Code members recently met to review progress made by members implementing it, and it is clear that other countries are taking their obligation seriously.

In addition to these efforts to open new markets currently closed to us, the Department is also concerned with maintaining markets previously opened. The U.S. will not, for example, tolerate any actions which will impair our zero duty on soybeans with the EC, and we will pursue our rights vigorously in this and other cases to ensure continued market access. Our policy in all cases will be to

aggressively seek improved market access for U.S. agricultural products.

Mr. WHITTEN. Should many of these trade barriers be reduced or eliminated, what is the potential impact you might see on U.S. exports?

Secretary BLOCK. Mr. Chairman, I see potentially significant trade increase for those particular commodities affected by the trade barriers, although the relative effect on total agricultural trade will be considerably less due to the high level of total agricultural exports projected for this year. The estimates of potential increases in exports that would result from a removal or relaxation of trade distorting barriers are imprecise. They could reach into the tens of millions of dollars for any given commodity.

INCREASING EXPORTS TO $100 BILLION

Mr. WHITTEN. During the coming year we will probably export close to $50 billion worth of agricultural commodities. Under what set of circumstances would you foresee the U.S. being able to export say $100 billion worth of agricultural products?

Secretary BLOCK. World population and economic growth will be the primary factors in an increase in U.S. agricultural exports. These factors, together with the efficiency and productive capacity of the U.S. agricultural production and marketing system should move us toward the $100 billion level within the next 3–5 years. Further, there are other factors which could accelerate this trend. These include more rapid economic development in the developing countries, a reduction of trade barriers and protectionist policies, an increase in exports of value added products, favorable exchange rates and continued concentration on traditional markets and products. All of this, obviously, will take a great deal of work and aggressive and imaginative U.S. policies dealing with economic development, trade and market development.

SOIL CONSERVATION PROGRAMS

Mr. WHITTEN. I believe it is widely agreed that one of the major problems we will be facing in the years ahead is that of soil loss. In fact, it has been said by some that as we work to increase our agricultural exports and by bringing more and more agricultural land into production, we are in effect mining the land. During your tenure as Secretary of Agriculture what will be your goals in the area of soil conservation and water quality?

Secretary BLOCK. As I've stated in the past, I believe that our agricultural land is the Nation's most important long-term resource. Based on findings of a recent Harris Poll, there appears to be a new public awareness of the problems surrounding soil and water conservation. In fact, more than half of the American public consider the misuse of soil and water resources a serious problem. This poll also indicates that Americans support Federal, State and local programs for farmland retention and conservation. Therefore, protection of our farmlands from excessive erosion and conversion to non-agricultural uses will be high priority goals.

State governments have also become more aware of soil and water conservation problems and have shown increased interest in

protecting the natural resources and have taken a number of legislative actions, including the establishment of financial assistance and cost-sharing programs, to supplement Federal programs. I support the idea of State-generated conservation plans which would provide for the common development of goals and objectives among many cooperating agencies with natural resourcers concerns.

I am now in the process of reviewing the working papers which report the current status of the work performed by USDA under the Soil and Water Resources Conservation Act of 1977. These papers outline various program strategies and funding levels and will be useful to this Administration as we begin to develop and establish our own strategies for soil and water conservation.

Mr. WHITTEN. Over the years the Agricultural Conservation Program (ACP) has played an extremely important role in reducing soil erosion and improving water quality, as well as water conservation. What is your experience with, and your feelings about ACP?

Secretary BLOCK. I am certainly very aware of the significant contributions of the ACP in terms of actual on-the-ground conservation accomplishments. It provides incentives through cost-sharing to landowners to practice conservation of soil and water resources. It operates through local impetus to meet locally identified needs. These are certainly two very important factors that have been behind ACP's success. In addition, the ACP could help to support the targeting of technical assistance to areas with critical resource problems such as excessive erosion rates, poor water quality, and water shortages. The gradual shift in program emphasis from short-term production-oriented practices to more enduring soil and water conservation practices is further strengthening the impact of the ACP on the long-term conservation of our natural resources.

I understand that an evaluation of the ACP was recently completed. I will be looking at the findings of this report in considering the future role of the ACP within the total array of soil and water conservation programs. In Illinois, we were able to initiate a State cost-sharing program to supplement the federally financed ACP. The encouragement of additional State cost-sharing programs is an approach which, in coordination with the ACP, can result in real conservation benefits without incurring undue increases in Federal expenditures. We will be looking at these and other cost-sharing alternatives as we finalize our recommendations on the future of the overall soil and water conservation program needs.

Mr. WHITTEN. For the last several years now, there have been attempts to curtail any new construction under the small watershed program. This program, which builds small upstream dams and water impoundment reservoirs and sediment basins, plays an extremely important role in water quality, flood prevention, and control of soil erosion. What are your plans with respect to the Public Law 566 programs?

Secretary BLOCK. Our plans with respect to the Public Law 566 program will be consistent with the Administration's overall policy regarding water resource projects. Even though this policy has not yet been formulated, program decisions will be made on the basis of fiscal responsibility with the overriding objectives of limiting

government spending, reducing inflation and providing improved water quality, flood prevention and erosion control. Currently, there are many completed watershed plans and contracts for which construction has not yet been initiated in addition to the several hundred ongoing projects that are in various stages of construction. With these factors in mind, the long-term and short-term impacts of small watershed construction on the Nation's economy, water quality, flooding, and soil erosion will be evaluated and a strategy developed to balance all of these needs in the implementation of this program.

Mr. WHITTEN. For many years now, this Committee has strongly supported the Resource Conservation and Development program, both for the conservation role the program plays as well as the rural development role it plays. The past administration, as you know, has been actively working to terminate the program, even though a recent White House report stated that the program plays a major role in rural development efforts. What are your feelings with regard to the RC&D program?

Secretary BLOCK. The RC&D program has been a controversial program for some time. The last Administration proposed a complete program phase-out by the end of Fiscal Year 1982. The Congress has consistently restored program funds and has authorized new RC&D areas in making annual appropriations available. The Congress also asked the General Accounting Office to evaluate the program. Their evaluation should be completed this spring. I would suggest that policy decisions on this program be based first of all on judgments as to whether the objectives of RC&D are consistent with our overall view of appropriate objectives for the Federal Government. Only after this question is clearly answered, should we take up questions of program effectiveness, efficiency and relative priorities within constrained funding levels.

USDA ORGANIZATION

Mr. WHITTEN. Usually, when a new administration comes into office, one of the first things it has done is to reorganize the Department. What organizational changes do you have under consideration at this time?

Secretary BLOCK. At this time, I have no specific reorganization proposals in hand. However, I will share with you at the earliest moment any concrete reorganization plans.

Mr. WHITTEN. There have been certain studies released in recent years that have proposed to transfer various functions out of USDA. Some studies have called for a transfer of the Food Stamp Program and the Child Nutrition Programs. Other studies have called for transfers of the Forest Service or the Soil Conservation Service. What are your feelings with respect to proposals such as these, and are any changes along these lines being considered?

Secretary BLOCK. Mr. Chairman, I have only been in office a little over a month and would like to reserve my comments on these reorganizational proposals for a later date.

CROP INSURANCE

Mr. WHITTEN. As you know, in the closing days of the last session of Congress, the new crop insurance legislation was passed. What are your feelings with respect to the new Federal Crop Insurance program?

Secretary BLOCK. The Federal Crop Insurance Corporation has an outstanding record of service to the American farmer for some 43 years. Many of the shortfalls in this program were corrected by the recent enactment of new legislation which, among other things, encourages involvement of private industry in program delivery. At my confirmation hearing I stated that the crop insurance program should be fully capable of replacing the current disaster payments program as intended. I still am optimistic that this can be done.

Mr. WHITTEN. The Carter Budget contains a request for supplemental funds for the Crop Insurance Program. What is the new administration's position with respect to this supplemental, and how urgent do you feel the request is?

Secretary BLOCK. The supplemental budget request submitted by the Carter Administration contains two components. First, there is a request for $49 million which will cover operating and administative expenses for the Corporation. Second, $150 million is requested for Subscription to Capital Stock. This Administration strongly supports both components of this supplemental budget request.

I cannot overemphasize the importance of prompt Congressional action in approving this supplemental budget request. Currently, FCIC is obligating its appropriated funds on a deficiency apportionment basis. These funds will be exhausted by the end of April. Unless Congress approves a supplemental budget request for operating and administrative expenses, FCIC will be forced to cease operations.

Mr. Chairman, the implications of this action are grave. Losses due insured farmers could not be paid. Sales of crop insurance throughout the 39 States in which it is sold may have to be terminated. Ceasing operations would affect not only insured farmers, but also some 8,000 agents who have contracted to sell Federal Crop Insurance, as well as 21 companies who have agreed to participate in the reinsurance program and are now writing all-risk crop insurance. The policy objective set out for this program—that crop insurance should become the primary form of Federal disaster protection for farmers—would clearly be dealt a grave setback if operations in fiscal year 1981 were interrupted. This Administration clearly wants to avoid these repercussions. I urge you to give prompt and favorable consideration to this supplemental budget request for the Federal Crop Insurance Corporation.

ON-FARM GRAIN RESERVE

Mr. WHITTEN. What are your views with respect to the on-farm grain reserve that is now in operation?

Secretary BLOCK. The basic idea behind the grain reserve, namely to isolate stocks from the market in times of oversupply, to move them back when supplies are short, is worthy of continued support. A particularly attractive feature of the grain reserve is

that the stocks are held by the farmers and not by the government. Producers can, subject to certain limitations imposed by the release and call prices, develop marketing strategies suited to their individual needs.

Through time, the grain reserve has assumed a certain jerry-rigged aspect. We now have Reserves I, II, and III, each with slightly different rules. We need to simplify the operation to make sure the reserve does not interfere with the normal workings of the market.

Mr. WHITTEN. What are your feelings with respect to any expansion of this reserve in the future, and under what conditions would you consider such an expansion?

Secretary BLOCK. In times of over-supply, I imagine that the grain reserve could grow to buffer the price effects and help protect farm income. In times of extaordinary export demand or poor growing conditions in the U.S., I can see grain flowing out of the reserve in response to the higher prices. I would not, however, want to rule out the use of an acreage diversion program to limit the buildup in reserves if they become excessive.

Mr. WHITTEN. Do you, at this time, have any plans to allow any expansion during calendar year 1981?

Secretary BLOCK. For this year, under present rules, there is still a chance that additional wheat could enter the reserve, especially after the new crop is harvested. Shortly, we will be presenting our ideas for the new farm legislation. I do not want to go into details right now.

Mr. WHITTEN. Over the last several years, this Committee has expressed its extreme concern over the potential problems that could occur with an on-farm reserve. This concern is based on the numerous problems which have arisen in the past in connection with the storage of grain. As Secretary, what steps do you plan to take to assure that the on-farm reserve is operated in such a manner as to protect both the farmer and the government?

Secretary BLOCK. Mr. Chairman, the Department recognizes the concern which has been expressed by the Committee in regard to the potential problems that could occur with an on-farm reserve. Storage of grain for an extended period, either on the farm or in commercial warehouses, does require continual monitoring.

Farm-stored grain entering the reserve is visually inspected, before the reserve agreement is approved, to determine if the grain can be safely stored during the loan period. In some instances, a sample is submitted for official grade determination. All farm-stored grain in the reserve is inspected at least once each year. In addition to the annual inspection, Agricultural Stabilization and Conservation Service makes on-site inspections each year of a statistically selected random sample of the farm-stored reserve grain. A sample of the grain is submitted for an official grade analysis. A follow-up report is required on the loans on which problems were indicated, to determine what action was taken to alleviate the specific problem. The follow-up report on action taken for problem bins revealed in the 1979 farm-stored reserve quality check indicates that when problems are found, producers take appropriate action to correct the problem. Several different actions were taken to correct the problem. Some of the loans were repaid and some of

the grain was rotated with subsequent crop-year grain. In many instances the bins were fumigated or the grain was reconditioned.

Producers are responsible for maintaining the quality of farm-stored grain. Settlement of a loan which is delivered to the Commodity Credit Corporation is based on the quality of the grain delivered. The Department does, however, recognize its responsibility to assist the farmer in maintaining the grain in good condition. The ASCS inspections are made for the farmer's benefit and also to protect the interest of CCC and the consumer who ultimately is the user of the product.

Experience with the grain reserve does indicate the need for rotation of grain and constant vigilance by the farmer and the Department. The Department will continue to assist farmers with educational campaigns directed at proper handling of farm-stored grain and by continuation of regular inspection procedures to identify problems as they occur.

CONTRACTING AGRICULTURAL RESEARCH

Mr. WHITTEN. Over the last several years, there has been considerable pressure originating primarily within OMB to redirect agricultural research. One of the main efforts has been to terminate ongoing research projects that were done in-house and switch them over to contract research. From what the Committee could learn, this is done solely to reduce Federal employment, even though the actual cost might be considerably higher. What are your thoughts on in-house research versus contract research?

Secretary BLOCK. Mr. Chairman, a strong research program is fundamental to our objectives for a strong and healthy agricultural economy. I believe it is prudent to examine research problems and determine whether the research can be conducted best by in-house scientists or through extramural contracts. Our in-house research programs must continue to be well managed and should not be limited by decisions to contract out research for the sake of contracting. Contracting should be used to supplement the total research program in effectively achieving the research objectives. The in-house staff must insure that the research is appropriately conducted and is of high quality.

BASIC AND APPLIED RESEARCH

Mr. WHITTEN. Another trend that has been increasing in recent years has been the emphasis on basic research. While basic research is extremely important, there are a world of problems the farmer needs help on now. What are your feelings as to how we can best strike a balance between basic research and applied research?

Secretary BLOCK. Mr. Chairman, we believe that we have a good mix of applied problem-solving research and long-term fundamental agricultural science. The bulk of our work is on the farmer's immediate problems, but we also must look to the needs of the future. A great deal of effort has gone into resolving the balance issue. We have recognized that there has been a general erosion in the fundamental knowledge base underlying agricultural science and technology development. This is true, not only for agricultural

science, but also for the general technology-generating base underlying most of American industry. The Department has taken the position that a proper balance cannot be achieved solely by dollar allocations. The content of the programs must also be correct, and they must be constructed to contain those programs which have the best potential to achieve both the technical objectives and the Department's overall objectives. To this end, the Department, its cooperators, and a broad spectrum of the agricultural and private sectors have been consulted in order to develop a collective judgment as to the correct areas to emphasize in our mission-oriented fundamental research programs.

This is a scientific transition period in relatively new areas of basic research such as Genetic Engineering and the beginnings of systems approach development for solutions to agricultural problems. The Department considers that these truly fundamental research efforts can make a significant long-term contribution if it is provided with sustained support at somewhat higher levels than in the past. In order to facilitate the transition period to the newer technologies and the bioregulatory program thrust, we consider modest increases during an interim period to be both a necessary factor in the success of the Department's and our cooperators' programs and an excellent investment.

COMPETITIVE RESEARCH GRANTS

Mr. WHITTEN. What is your position with respect to the competitive grants program?

Secretary BLOCK. I believe the competitive research grants program adds an important dimension to our excellent system of funding agricultural research. It complements our formula, in-house, and special grants programs. A relatively small competitive grants program can help focus a wide reservoir of research expertise and attention on critical science areas of major importance to our long-term food and agriculture objectives.

ROLE OF FEDERAL AND HATCH ACT AGRICULTURAL RESEARCH

Mr. WHITTEN. What are your feelings with respect to federal research and Hatch Act research? What role do you envision for each and how will they interact?

Secretary BLOCK. The Department's role in funding federal agricultural research and Hatch Act research has been the result of careful congressional oversight for more than 100 years. Mr. Chairman, your Subcommittee is recognized as a significant architect of the role and balance of present funding approaches so essential to our successful state-federal partnership in food and agricultural research. I believe strong, complementary, and coordinated in-house and state agricultural experiment station programs are necessary to address the diverse local, regional, and national research concerns that face U.S. agriculture.

Our Hatch Act funding policies reflect the flexibility provided to the states in addressing high priority problems at local, state, regional, and national levels. Our in-house programs give us the opportunity to manage specific and high-priority regional and national research efforts.

To be an effective voice at the federal level for agricultural science, the Department must have the confidence and support of the state-federal partnership. We will continue to improve our communication and coordination among in-house, state agricultural experiment station programs, and other state and private institutions as a part of the concept of the Joint Council on Food and Agricultural Sciences in order to get the most out of our research investments.

FUELS FROM AGRICULTURAL PRODUCTS

Mr. WHITTEN. What role do you foresee for the use of agricultural products as alternative sources of fuel?

Secretary BLOCK. We believe that agricultural and forestry products will become increasingly important as feedstocks for alternative energy production in the future. Through the mid-1980's we expect that most of the liquid fuels produced from agricultural products will use feed and food grains as feedstock materials. In the last half of the decade, as technology advances, we expect increasing quantities of alcohol to be produced from cellulosic materials such as wood products and agricultural residues.

We do not know the extent to which agricultural and forestry products will be used during the next decade as feedstock material for alternative sources of fuel. The amount of biomass resources used to produce liquid fuels will be determined by the marketplace in competition with liquid petroleum fuels and food. We believe the marketplace is the most efficient mechanism for allocating such products among their various food, feed, fiber, energy and export uses. With energy prices higher than agricultural product prices, larger quantities of commodities are likely to be used in the production of alternative fuels.

The Department is expanding intermediate to longer-term research programs to develop new and improved biomass materials that will increase liquid fuel production per acre or per ton of material. These new or improved feedstock materials will enhance agricultural productivity and moderate potential adverse impacts on agriculture and food supplies from increasing product demand.

Agricultural and forestry products increasingly will be used to produce other types of alternative energy through direct combustion, methane generation, and other methods.

Mr. WHITTEN. What are the current economics of using corn in the production of gasohol, and what does the future look like?

Secretary BLOCK. The following table shows the cost per gallon of producing ethanol with varying corn feedstock prices. With the average price received by farmers for corn in January 1981 at $3.32, the total cost per gallon of ethanol produced was $1.98. The net cost per gallon of ethanol produced after allowing for the distillers dried grains and solubles credit was $1.51.

These costs of production data for ethanol are representative for plants using the dry milling process. Comparable data for alcohol produced from the wet milling process are unavailable but are presumed to be somewhat lower.

With January corn prices and a refinery gate or rack price of $1.10 per gallon of gasoline, a blended gallon of gasohol would cost $1.101. Thus, the cost of gasoline and gasohol is approximately the

same. This includes an allowance for the Federal excise tax credit of 4 cents per gallon of gasohol.

Once alcohol production capacity is in place, the continued economic feasibility of ethanol as a liquid motor fuel depends primarily on the price of feedstock material and the price of gasoline. We estimate the price of corn for the 1980–81 crop year will be from $3.25 to $3.60 depending largely on weather conditions in the Corn Belt during the growing season. Increases in future gasoline prices are unclear. Some analysts are predicting retail gasoline prices to rise another 15 to 25 cents per gallon by fall.

We believe that the production of ethanol for use in gasohol will continue to be economic in the future. This is based on our expectation that petroleum prices will increase relative to agricultural commodity prices.

COST PER GALLON OF PRODUCING ETHANOL AND GASOHOL AT SELECTED CORN FEEDSTOCK PRICES [1]

Item	Price of corn in dollars per bushel			
	2.50	3.00	3.50	4.00
Ethanol production costs:				
Feedstock	$0.98	$1.18	$1.37	$1.57
Variable	.31	.31	.31	.31
Fixed	.37	.37	.37	.37
Total	1.66	1.86	2.05	2.25
Less byproduct credit for distillers dried grains	.38	.44	.49	.55
Total net cost	1.28	1.42	1.56	1.70
Gasohol production costs:				
Gasoline [2]	.99	.99	.99	.99
Ethanol	.128	.142	.156	.170
Total	1.118	1.132	1.146	1.160
Less income tax credit [3]	.04	.04	.04	.04
Total net cost	1.078	1.092	1.106	1.120

[1] Based primarily on production cost data from ESCS–AER No. 458.
[2] Based on a refinery gate price of $1.10 per gallon for regular unleaded gasoline.
[3] Based on the 40 cents per gallon of alcohol in Public Law 96–223, Section 44E, (b)(1)(A).

GASOHOL PRODUCTION

Mr. WHITTEN. A number of scientists feel that sorghum could well be a better commodity to use in the production of gasohol than corn. What are the latest developments with regard to the use of sorghum?

Secretary BLOCK. To evaluate the potential of sugar crops as an alcohol feedstock, several varieties of sweet sorghum were grown in six States as far north as Michigan and North Dakota in 1980. Data from this research indicate that sweet sorghum has the potential for producing about 500 gallons of alcohol per acre. The average alcohol production from corn is about 260 gallons per acre. Sweet sorghum is more drought resistant than corn and can be grown wherever corn is grown. There are several questions that only can be answered by additional research. There is evidence that harvest can be delayed for several weeks without deleterious effects on the alcohol yield; despite this, sweet sorghum will be available for conversion to alcohol only about 2 months out of the

year. Thus, sweet sorghum would have to be used in conjunction with other feedstocks to increase the operating period of processing plants. Facilities for grinding and storing juice to permit year-round operation are economically prohibitive.

About 20 percent of the alcohol production potential of sweet sorghum is in the bagasse and seed. Present conversion technology for using sweet sorghum in alcohol production requires juice separation from the plant material. Technology for more efficient conversion of cellulose to glucose would allow whole plant harvesting and processing without the separation of juice and bagasse. Research is underway at a number of locations, and further improvements in lignocellulosic conversion would increase the potential of sweet sorghum as an alcohol feedstock.

Mr. WHITTEN. What role do you plan to play as Secretary of Agriculture in the promotion of gasohol projects, both in terms of the growing of crops, the marketing of such crops, and the funding of the production facilities?

Secretary BLOCK. My role generally will be passive. President Reagan has decontrolled both price and allocation of petroleum products. These fuels now will be allocated through the pricing mechanism operating in the marketplace. Federal tax subsidies amounting to about $18 per barrel of ethanol used for gasohol have been retained in the President's plan. This very substantial subsidy should enable gasohol to compete with decontrolled gasoline. Accordingly, ethanol production for gasohol should be allowed to develop without such Federal subsidies as biomass energy production on set-aside acres, biomass energy reserves, reduced commodity prices for biomass feedstocks, or loan guarantees for funding alcohol production facilities. I do not intend to operate such programs.

Mr. WHITTEN. What is the current status of the gasohol loans that are being held up?

Secretary BLOCK. On January 27, I halted all approval, processing and disbursement on all alcohol fuel projects pending a further review of 15 fuel alcohol loans which were being audited by the Inspector General. On February 13, I authorized the Farmers Home Administration to proceed with processing of loan guarantees for the 14 plants that were not included in the Inspector General's audit. I also directed a team of loan specialists to review the 15 loans involved in the Inspector General's audit. On February 18, the review was completed for seven plants and the FmHA was authorized to proceed with processing all these loans. The balance are still under review. I expect we will be able to complete our review of this remaining group in the next few days.

FOOD VERSUS FUEL

Mr. WHITTEN. What are the economic trade-offs of an acre of agriculture land used for the production of energy as opposed to an acre of agricultural land used for the export market? In what various scenarios is one advantageous over the other?

[The information follows:]

The farmer gets the same price for his corn whether it is sold for export or for conversion into ethanol for gasohol. Therefore, the economic trade-offs are those that accrue to the Nation. Average corn yields for the past 3 years varied from 91 to 109.7 bushels per acre. Assuming a 100 bushel yield, an acre of corn could produce

260 gallons of ethanol, 1,628 pounds of distillers dried grains and solubles and 1,722 pounds of carbon dioxide. At $3.50 per bushel of corn, the value of products per acre are: $468 for ethanol; $49 for DDGS; and $0 for carbon dioxide or a total value of $517.

For export the corn from that acre would net $3.80 per bushel f.o.b. the Gulf port and earn $380 in foreign exchange. This excludes the value accruing to the Nation of wages to workers and profits to shippers for corn transported in U.S. vessels.

It would appear from the above that corn should be retained for conversion into ethanol and DDGS rather than be exported. However, if one is expecting to increase energy supplies then the following must be considered.

The 260 gallons of ethanol at 84,800 Btu per gallon will provide 22,048,000 Btu in a liquid fuel form. But, in the conversion of corn through the dry milling process to ethanol, some 84,000 Btu of energy are consumed per gallon of ethanol produced. Thus, an acre of corn would provide a net of 208,000 Btu or the equivalent of 1.7 gallons of gasoline.

The export of corn which earns $380 of foreign exchange would permit purchase of 10.8 barrels of crude oil at the January 12, 1981 price of $35.26 per barrel. This would provide 62,640,000 Btu of energy. Refining consumes about 15 percent of the Btu content leaving a net of 53,244,000 Btu of usable energy. As an alternative, gasoline could be purchased on the Rotterdam spot market for $43.20 per barrel. Thus, 369 gallons of gasoline having a Btu content of 46,125,000 Btu could be obtained from the acre of corn.

As long as this Nation is so heavily dependent upon foreign oil supplies, it is essential that agricultural exports be maintained to earn foreign exchange. For 1980 more than $41.3 billion of foreign exchange has been earned by exported agricultural commodities. Therefore, farm exports paid for approximately 53 percent of all energy imports which totaled $78 billion in 1980.

Mr. WHITTEN. Considering the importance of fuel to agricultural production, what consideration has been given to developing a USDA program to promote the on-farm storage of fuel, and would such a program be of benefit to farmers?

Secretary BLOCK. In 1978 about 50 percent of all farms reported having on-farm gasoline storage while 65 percent had diesel storage. For all farms, average national storage capacity was 541 gallons for gasoline and 714 gallons for diesel fuel. Farms reporting purchases of each type of fuel in excess of $10,000 had storage capacities averaging 3,374 gallons for gasoline and 6,207 gallons for diesel.

The volume of on-farm fuel storage is a function of risk. A farmer will determine the amount of fuel needed for his critical periods—planting, harvesting or irrigation—and will plan his storage according to this need and his assessment of fuel availability and price. Since the 1979 diesel fuel shortage, on-farm storage is believed to have increased dramatically. But Census Bureau 1979 figures on fuel use and storage are not yet available.

Because of decontrol, farmers will no longer have a guaranteed source of fuel. This fact, more than any promotional program which could be mounted by the Department, will encourage increased on-farm storage. It may be, however, that the Department could encourage increased on-farm storage through the Extension Service as part of a program of farm management improvement.

ENERGY CONSERVATION

Mr. WHITTEN. What role do you feel USDA should play in the area of energy conservation? I would like you to be specific in this, telling the Committee what agencies should be involved, what programs should be carried out, what results would be expected. Please give us some examples.

Secretary BLOCK. The USDA should continue to play a major role in energy conservation in the food and fiber sector in the United States. With the decontrol of crude oil and the possibility of natural gas decontrol by fall, energy conservation in the food and fiber system and in rural housing is essential. A continuing need for energy conservation exists throughout all areas of USDA responsibility, from the inputs supplied for production through processing, marketing and use of agricultural products.

Most USDA agencies currently are involved in energy conservation and I expect them to maintain this involvement in the future. Among the agencies most directly involved in energy conservation activities are the Science and Education Administration, the Forest Service, the Farmers Home Administration, the Soil Conservation Service, the Economics and Statistics Service, the Rural Electrification Administration, the Agricultural Marketing Service, the Office of Transportation, and the Office of Budget, Planning and Evaluation.

The following items will provide examples of our continuing energy conservation efforts. Fertilizer and pesticide use represents more than one-third of the energy used in agricultural production. Improving efficiency in the use of these inputs is the task of SCS, ASCS, and SEA. Information dissemination on new and existing techniques of efficient fertilizer and chemical use can aid farmers in efficient use under a variety of conditions.

Efficient irrigation is important for the conservation of both water and energy. With limited supplies of high priced water in the southern and western United States, the types of agriculture in those areas are in jeopardy. Continuing research in and demonstration of efficient irrigation methods by SCS, ASCS, and SEA is vitally important.

Minimum or reduced tillage was practiced on about 65 million acres in 1980. These practices save up to 2.5 gallons of fuel per acre while reducing soil erosion and improving soil structure. While minimum tillage cannot be utilized on all soils, additional energy savings are possible through SCS, ASCS, and SEA research, information, and cost-sharing programs.

The Agricultural Conservation Program administered by ASCS with support from SCS, FS, and others has helped reduce soil erosion and conserve water. This Program results in direct and indirect energy conservation while maintaining the U.S. land and water resource base for future generations. Reductions in this program could result in significant losses of the land and water resource base.

Research on the economic feasibility of other energy conservation practices is needed, especially for those with a longer payback period. With increasing energy prices, ESS must continue to work closely with SEA to develop economic data to support technical information which can be disseminated.

Financial assistance for energy conservation is provided primarily through FmHA and REA usually at below-market interest rates. These programs help those individuals who are unable to benefit from the residential energy tax credit because of their low-income level.

The USDA also conducts energy conservation activities in the processing of food and fiber products. The SEA engineers are developing and distributing technical information concerning insulation, heat exchangers, and new or improved practices to help food processors use energy more efficiently. The FS is developing technology and providing technical assistance to the forest products processing industry that helps them both use wood more efficiently and utilize wood residues to conserve conventional fuel.

In addition to agriculture, the USDA has responsibilities to develop and assist in energy conservation activities for all American families. Current activities include an assessment of household decisions on housing, transportation, recreation and energy use and conservation practices. These are being studied by SEA which will then develop energy efficiency programs for dissemination.

STRUCTURE OF AGRICULTURE

Mr. WHITTEN. Last month, just before you were sworn in as Secretary, the Department released the so-called Structure of Agriculture study. What are your comments on the findings of this study?

Secretary BLOCK. As you know, this Administration has been in office a little over a month and we have not had time to thoroughly review and analyze the report. At this point, I do not believe that the situation today is as desperate as the picture painted in the Structure Report. As the top policy positions in the Department are filled in coming days and weeks, we will be prepared to take specific policy positions on some of the recommendations.

Mr. WHITTEN. Do you have any plans at this time to pursue any of these recommendations and conclusions?

Secretary BLOCK. The Structure Report contains some useful information. It is not a sufficient foundation for program development and I do not believe that it should be used to establish any final policy of the Department at this time.

However, many of the issues discussed in the Report will be addressed in the legislative programs that the Administration presents in the coming months.

Mr. WHITTEN. What biases do you feel, if any, were reflected in this study?

Secretary BLOCK. The Structure Report is just one perception. Some of its viewpoints appear reasonable while others are more narrow and do not capture the total spectrum of opinion of those knowledgeable about agriculture.

The Structure Report tends to focus on government programs and I believe that they too have played a role, though I do not think at this point we know the extent of their influence or direction of impact—I strongly believe that we need to reexamine our Federal program and policies.

Emphasis will be placed on productivity, freer competition, evenhanded treatment and a less regulated farm industry. We hope eventually to reduce the Federal role and thus reduce the impact of Federal programs on structure—whichever direction they affect it.

FMHA RURAL HOUSING PROGRAMS

Mr. WHITTEN. In the area of the rural housing programs carried out by the Farmers Home Administration, there has been a move in recent years to attempt to target the low-income housing loans to the so-called poorest of poor. By making this an objective of the program, it would appear that in many areas of the country funds are being targeted to people that cannot afford even a deeply subsidized housing loan. What are your feelings on this approach, and what are your comments on the previous policy of leaving the loan determinations up to the people who operated the program in the local area and who would, of course, know the local area best?

Secretary BLOCK. It will be the policy of this Administration to provide Federal assistance to those people who truly need it. At the same time, however, we recognize that there are those in rural areas who are too poor to take on the responsibilities of home ownership. Our Section 502 home ownership program will be made available to those who can afford, with the authorized subsidies, the payments on the housing loan and family living expenses. The multi-family rental housing program will be utilized in meeting the needs of lower income families, when appropriate. We will rely heavily on our local FmHA people to set up the program mix which will work best.

Mr. WHITTEN. Mr. Traxler.

PRESIDENT REAGAN'S BUDGET PROPOSALS

Mr. TRAXLER. I have an impression from the President's address last night that there are some forthcoming additional budget recommendations in the agriculture area that we can expect March 10th. Could you assist this committee and give us a preview of those additional considerations that you foresee occurring prior to that March 10 time?

Secretary BLOCK. I cannot give you a lot of detail, but I might point out that as of yesterday, you have seen the budget cuts that are recommended to date.

Mr. TRAXLER. Proposed cuts?

Secretary BLOCK. Right, recommended by the President, and I would say that the programs that have been targeted for proposed cuts are the ones where most of the potential savings happens to lie. There will be more proposed cuts in other programs, but at the same time, I think that the largest share of the potential savings is already documented here. Probably the next proposed cuts on all of the rest of the programs put together may very possibly be under $1 billion. So, I think we are looking at the biggest ones here and as I have said in the past, there are at least two programs that I will be working to give favorable consideration in the budgeting process. One of them will be programs that can expand our commercial exports because I think that exports earn us considerable revenue in the final analysis by creating jobs and economic activity in this country. The second area is agricultural research.

I think agricultural research has been somewhat neglected in recent years and needs to be supported to a greater extent by the Federal budget.

Mr. TRAXLER. I totally agree with you on that point. In the recommendations that we have received from President Carter's budget for 1982, there were some meaningful research increases, and I take it from your comments that you at least, and perhaps this administration, would support those research increases. Perhaps in your submissions for 1982 on March 10, you might even be talking about some increased ones.

Secretary BLOCK. I do not have any specific figures and frankly the specifics of the amounts to be budgeted by the administration are not decided yet. My opinion, as Secretary of Agriculture, is that this is where I think we should have emphasis and be fighting to provide more emphasis.

RUSSIAN GRAIN EMBARGO

Mr. TRAXLER. Turning to the Russian grain embargo for a moment, I appreciate your strong efforts to get the embargo ended. According to your information, how much, if you have an answer for this, how much of the 17 million tons of embargoed grain have the Soviets been able to obtain elsewhere?

Secretary BLOCK. I have to concede that there are differences of opinion here but it looks to me like they have made up all but about 1 or 2 million metric tons of the grain that they had hoped to import and frankly their import facilities are being taxed nearly to the limit now. Unfortunately, the grain is not coming from the United States. I think that they are keeping their import facilities busy and they probably would not be able to import a huge additional amount anyway.

Mr. TRAXLER. The current Russian grain contract expires the end of this September. Do you have any plans for the renegotiation of the agreement, and to what extent do you believe these negotiations might be hampered by the continuation of the embargo?

Secretary BLOCK. Well, I am concerned as are other members of this administration and the President too about where we go on a new grains agreement, or do we go on a new grains agreement.

I think that without some change in the grain embargo situation, it would be difficult to negotiate a new grains agreement. We might negotiate an agreement along with lifting the embargo some way but I do not think we can negotiate an agreement and never lift the embargo. At sometime, the embargo has to be lifted if we are going to have an agreement.

Mr. TRAXLER. We wish you well in explaining that simple truth in fact to others in different positions within the Government.

Secretary BLOCK. Please help me explain it.

FARMER-HELD GRAIN RESERVE

Mr. TRAXLER. We will do our very best, and you are not the first Secretary of Agriculture that has had second-guessers looking over his shoulder at American agriculture policies.

Turning for a moment to Federal farmer-held reserve and price programs, you have made some comments indicating support for the continuation of the farmer-held reserve as part of any farm program that we may have in coming years.

Have you had an opportunity to closely examine the program and formulate any ideas as to recommendations for changes in this area?

Secretary BLOCK. We are looking at the farm bill right now and trying to lay out directions and philosophies so that we can build around those philosophies specific parts of the program.

I think that what we should be looking towards in terms of the farm bill would be continuation of the farmer-held grain reserve.

I would like to eliminate target prices. Perhaps there might be a way to keep them as a flexible tool that could be used by the Secretary at his discretion. Philosophically, I have a problem with target prices, because they are a direct drain on the Treasury and it is hard for me to justify those kinds of payments publicly. I would like to raise the loan rate a modest amount but I do not want to get ourselves into trouble so that we would be unable to clear this grain or build up stocks and perhaps damage our export markets.

I would like to see the call level increased so that this farmer-held reserve does not serve as a lid on the market at a low level. I want the market to have a chance to move higher on its own. When the market can move higher, it tends to ration the utilization of whatever commodity is under consideration, and that is a positive step and illustrates the free market system at work. Our farmer-held reserve will still be there and if we do get into an emergency situation it will not have been used up early on.

These are a few of my thoughts on the farm bill.

SUGAR POLICY

Mr. TRAXLER. Before we get to dairy, I would like to ask you a question on sugar.

The Congress has struggled over the last several years, since 1974, trying to establish a national sugar policy. We have fallen somewhat short in this area. Have you had a chance to make a review in the Department and in consultation with others in the Department as to whether or not in the coming year or so, you will recommend a sugar program to the Congress?

Secretary BLOCK. I have not gotten into the sugar bill at this point.

Mr. TRAXLER. I will be very happy in the course of events, and after you feel more comfortable in your chair over there, if you would come over and discuss that.

Secretary BLOCK. Certainly, we would welcome your contribution.

DAIRY PRICE SUPPORT PROGRAM

Mr. TRAXLER. Turning to dairy for a moment, the major component of the President's proposal for agriculture is the virtual elimination of the dairy price support program and, perhaps, even the orderly marketing program.

We can argue whether or not this is desirable, and I suppose it depends upon whether you are a dairy farmer or whether you are a consumer or a person charged with responsibility for administration of government as to how you view that program. I am sure there are all kinds of sides on this issue.

Can you estimate the proposal's impact on the continued availability of supplies of dairy products, including raw milk? What is this going to mean for a consumer if the program is eliminated? What does it mean for a milk consumer in Los Angeles versus a milk consumer in Milwaukee?

Secretary BLOCK. I do not favor eliminating the program. I hate to speculate on the availability of dairy products. It is my philosophy, that all programs be 100-percent market-oriented, no government involvement at all but, that is not very practical. There are programs all over the board from tobacco to cattle where there is practically no government involvement.

TOBACCO PROGRAM

Mr. WHITTEN. You mentioned tobacco.

I read in the press so frequently, about the subsidy that goes to tobacco. I realize you have a limitation on the production of tobacco; and if they did not have the limitation, you would have unlimited amounts of tobacco, and the consumption might be six or eight times as high as it is now. We have done research trying to take the tar out. There is so much misrepresentation in the press about the tobacco program.

I thought I ought to interrupt.

Mr. NATCHER. You did right, Mr. Chairman.

Secretary BLOCK. I will try to finish your question.

I concur on the tobacco program but people do say look at all the subsidies in the tobacco program.

I do not think we want to put them into a straightjacket. They are not all going to be the same. Generally speaking, I want to give the commodity groups that have the program what they want but it has to meet one criteria. It cannot cost the Government an excessive amount of money. By and large, I am very complimentary of the farm programs that we have in this country because they do not cost the Government very much money. We can all look at the USDA budget and find that the vast majority of the budget comes from outside of the specific farm programs. Probably 90 percent of the budget is for something other than farm programs. Most people do not realize it. The press does not realize it and if they do, it is not printed. In terms of the budget, the farm programs are very small. Few reports compare us with the other modern countries in the world which have extremely expensive farm programs that cost billions and billions of dollars.

DAIRY PROGRAM

I think we have a very free agriculture relative to other countries, and one that does a good job for us. On the milk program itself, I do not support dismantling the program. I want to see the incentive to milk more cows reduced so that the dairy farmers will sell some of their cows. If they would just sell some of their cows, they would get a lot of troubles off of my back, a lot off their own backs and yours, too. Perhaps we can alter the program enough to provide enough disincentive so that they will sell their cattle.

Mr. TRAXLER. Mr. Secretary, I was looking at the President's recommendations for dairy price supports and the current base

program outlays of $1.3 billion for 1981. He proposed rescission of $138 million in fiscal 1981. But in 1982 the projected outlays would be in the area of $1.7 billion. He proposes budget outlays of $622 million, which is a very, very drastic alteration in this program, a severe cutback by two-thirds. Is that a program that you support?

Secretary BLOCK. We are working with the dairy industry right now and hoping to come to grips with the program that will accomplish something very close to that.

FEEDING PROGRAMS

Mr. TRAXLER. Going on, I want to talk about food stamps for a moment.

I have some statistics that indicate, and they are taken from the U.S. Department of Agriculture Demographic Study of Food Stamp Households of 1978. It is important that we get these in the record. Could you correct me if I make a misstatement? My information is that, for instance, 69 to 70 percent of all the households on food stamps are headed by women, and additionally, 54.1 percent of all food stamp recipients are children under the age of 17.

We have a number of food programs that are operative in this country, some targeted programs such as the WIC program, and the commodities supplemental feeding programs. What are your intentions toward those food nutrition programs? Have you formed any ideas as to what will be occurring with the WIC program or the commodities supplemental feeding programs?

Secretary BLOCK. In response to whether those figures are exactly right, I do not know and I do not know if Steve knows.

Mr. DEWHURST. They are essentially correct.

Secretary BLOCK. The other programs that you mentioned are under consideration right now, and we have not come to grips with how to handle them. The ones we have details on are the ones that were announced last night by the President or are in the briefing book he submitted.

Mr. TRAXLER. One thing about the recommendations in connection with the food stamp program that I believe the President touched upon last night, is the tradeoff on the school lunch program for the food stamp recipient.

Secretary BLOCK. Yes.

Mr. TRAXLER. I am troubled with that, because I am fearful that the administrative costs of that program are going to vastly exceed the economic savings, and one thing that we get, and I am sure you are conscious of this as a former Secretary in Illinois, one thing we get from the people out there is, "For Heaven sakes, do not burden us with any more paperwork." The fear that these people have in the schools is that the administration of this program is going to overload them, and make them in a sense a police department. They are going to have to file innumerable forms and act as the local cop on the beat in connection with the school lunch program. We are saying do not do that to us. Have you found a way that we may not be aware of that the President's proposal can be administered without excessive bureaucratic tape, without innumerable forms, and without turning the schools of this Nation into a police department?

Secretary BLOCK. I do not have the details on that.

I am told by our Administrator-designate for this program that it can be done and it should not be a big problem.

Maybe I am just dreaming, but it seems to me that the school lunch program can be administered in a straight-forward manner.

I do not think you are going to get into the kind of thing that depends on whether students are sick and eat at home. You have to have a standard number of days and assume they are going to go to school for a certain number of days and lay it out that way. The primary burden of enforcement should be with the welfare system rather than with the schools.

I think it can be done, but I do not have any details on how.

THE U.S. SALES SUSPENSION ON GRAIN TO THE U.S.S.R. AND RENEGOTIATION OF THE U.S.-U.S.S.R. GRAIN AGREEMENT

Mr. TRAXLER. I want you to know that I appreciate your strong efforts to get the President to end the current embargo of grain to the Soviet Union. I have been opposed to the embargo since its inception, and I remain firmly convinced that the embargo has done far more harm to the American farmer than to the Soviets. According to your best available information, exactly how much the embargoed grain have the Soviets been able to obtain from other sources?

Secretary BLOCK. During the July 1979 through June 1980 period, the U.S.S.R. appears to have been able to replace from other origins all but about 8 million of the 17 million tons of grain that we stopped sales on. However, we estimate that for the July 1980 through June 1981 period the U.S.S.R. probably will be able to import all but 2 to 3 million tons of what they would have imported under normal circumstances.

Mr. TRAXLER. The current Russian grain deal expires at the end of September. What are your current plans for renegotiating this agreement, and to what extent do you believe that these negotiations will be hampered by the continuation of the embargo?

Secretary BLOCK. We are currently reviewing both the sales suspension and our Long Term Agreement on Grains with the U.S.S.R. We feel that many of the factors that resulted in the initial agreement are still relevant. Any decision on initiating talks with the Soviets on another agreement, however, must await other actions.

Mr. TRAXLER. What role do you expect the other agencies of the Federal Government, notably the Departments of State and Commerce, and OMB, to play in these negotiations?

Secretary BLOCK. As you are aware, the subject of the embargo and a possible new grains agreement has been a discussion issue of recent cabinet meetings. Other agencies of the government such as State, Commerce, and OMB have participated and will be kept fully informed of any developments.

FARMER-HELD RESERVE AND PRICE SUPPORT

Mr. TRAXLER. Do you anticipate making any changes in the way in which this farmer-held reserve operates?

Secretary BLOCK. I regard the farmer-owned reserve program as necessary for a sound American agriculture. We intend to recom-

mend to the Congress that the reserve be continued. I believe that the reserve should act as a buffer—grain should move into the reserve when supplies are excessive to be made available when supplies are light. I would like the reserve program to be simplified. There have been all too many changes in the reserve that complicate its operation and confuse the public.

Mr. TRAXLER. There have also been reports that the Department may advocate the end of target prices in the 1981 farm bill, and it is well known that you are personally philosphically opposed to target prices. Target prices haven't been much in use for the past year because of improving farm prices, so their absence might not be noticed by farmers who are not using them. But if you end target prices, are you currently planning on proposing increases in the base loan rates for these commodities? Can you tell me what rates are currently being considered?

Secretary BLOCK. Target prices are potentially quite expensive, and they have certain operational shortcomings which make them less desirable than loans for supporting farm income. Since the deficiency payment rate is based on a national average price received, it could be argued that about half of the producers receiving payment really had no deficiency. Also, the target price does not allow for location and quality differentials which are reflected in actual market prices. The loan program does not have these flaws and, in addition, loan outlays are recoverable. The present base loan rate of $3.00, $2.25, and $5.04 for wheat, corn, and soybeans, respectively, were set by legislation enacted just a few months ago. Care will have to be taken so that any increase in these do not conflict with other goals we will set for the farmer-owned reserve. We are studying the reserve options at the present time.

Mr. TRAXLER. Are there any crops that you propose to eliminate from the price support program, or any crops that you would like to add?

Secretary BLOCK. We are currently studying that question and have not decided.

Mr. TRAXLER. Do you intend to seek authority to allow you to impose an acreage set-aside as a condition of eligibility for farm price supports?

Secretary BLOCK. At this time, we are looking into this matter more closely. I would prefer to use an acreage diversion program rather than set-aside.

Mr. TRAXLER. You have stated an interest in increasing the call prices on commodities under loan so that the price is much stronger before grain is required to be sold in order to pay the loans. What price levels are you considering, and how do they compare to present call prices?

Secretary BLOCK. Present call levels are low enough so that they could conceivably serve as a price ceiling because a large quantity of grain could be freed from the reserve in a rather short time. Increasing the call levels would widen the range within which market forces could operate. There will be debate concerning the appropriate level for call prices between those who want higher grain prices and those who want lower ones.

Mr. TRAXLER. What are your views on paid acreage diversion programs?

Secretary BLOCK. The voluntary aspect of paid diversion programs appeals to me. I will consider using a diversion only when supplies are excessive.

Mr. TRAXLER. Do you plan to seek any increases in the interest rates associated with price support loan programs?

Secretary BLOCK. Interest rates charged to farmers should reflect CCC rates of borrowing money from the Treasury. Interest rates may have to be adjusted more frequently.

SUGAR PROGRAM

Mr. TRAXLER. There have been efforts in recent years, with limited success, to reestablish a sugar price support program, similar to the one that was in force until 1974 when then-Secretary of Agriculture Earl Butz opposed its extension. Obviously you must be aware of interest in including such a program in the 1981 farm bill. Can you tell me if you and the Department have developed any particular position on this matter at this time, and if not by when you might expect to have developed such a position?

Secretary BLOCK. Frankly, we have not given any serious consideration toward recommending adoption of a sugar program similar to the one that expired at the end of 1974. To again impose such controlling and burdensome conditions as individual country quotas, excise taxes, production controls, minimum wage rates, and direct payments would be totally against the aims of the new Administration. We much prefer to continue to allow domestic sugar prices to be determined by the supply and demand relationship in the world and, if necessary, to use authorities available under existing statutes to help foster a healthy climate in the domestic sugar industry.

Mr. TRAXLER. There may be some interest in simply reinstating the 52.5 percent of parity sugar loan program that was added in 1977 by Congressman de la Garza. What would be your reaction to such a program?

Secretary BLOCK. If it is determined at any time that the returns to sugar beet and sugarcane producers need some protection in order to maintain a healthy U.S. sugar industry, we would not be opposed to a price support loan or purchase program as authorized by the Food and Agriculture Act of 1977. However, we do not support the adoption of mandated price support for sugar with some required minimum support level. Existing authorities give the Department the flexibility to initiate both the type of price support program and level of support which will best respond to any particular condition or set of conditions having an unacceptable adverse effect on the domestic sugar industry. We support the continuation of these discretionary authorities.

Mr. TRAXLER. Sugar processing plants have continued to close in recent years as a result of the problems faced by the domestic sugar industry. Do you think that we can afford to allow such closings to continue? No sugar beet processing plant that has closed has ever reopened.

Secretary BLOCK. I do not think we can continue to let sugar processing plants close if those closings are due strictly to the unwillingness of Government to react to crisis situations. The Department believes it is essential to preserve the capability within

the United States of producing a significant portion of our sugar requirements. It is our full intention to respond to situations which place the health and prosperity of our agriculture industry, including sugar, in jeopardy.

DAIRY PRICE SUPPORTS

Mr. TRAXLER. Returning to the dairy program, can you estimate in greater detail what this proposal's impact will be on the continued availability of sufficient supplies of dairy products.

Secretary BLOCK. We have not yet determined what proposal to make for the milk price support program. The purpose of the milk price support program is to assure an adequate supply of milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. Such assurances depend on returns to milk producers adequate to cover their costs.

The current program, with the support prices set at 80 percent of parity and adjusted twice yearly, can be expected to have a heavy impact on commercial use of milk. From the current level of about 120 billion pounds, an increase of no more than 5 billion pounds can be expected over the next 5 years. Farm income under that program is essentially maintained only by huge and increasing government purchases, increasing from 1.1 billion pounds in 1978 and 1979 to 15.5 billion pounds by 1986. There is no foreseeable commerical market for such stocks.

On the other hand a program designed to support milk prices so that producers have a strong incentive to increase production when more milk is needed, but which does not provide unwarranted incentives when it is not, can be expected to buy 3 or 4 billion pounds of milk equivalent each year, and cost much less while guaranteeing a fully adequate supply.

Such a program would resemble the current program, only the surpluses would be eliminated. Commercial use would increase twice as fast between now and 1986 by almost 10 billion pounds, but with a much closer supply-use balance prices would fall to government support level less often. Production would be fully adequate, increasing by above 1 billion pounds to about 132 billion pounds by 1986.

Mr. TRAXLER. There have been reports that you will be seeking to use only an annual adjustment in the price support levels as opposed to the current semiannual adjustment. Doesn't this mean that price jumps will be more significant when the adjustment is made? For this reason, wouldn't it be better to retain the semiannual adjustment so that there is a relatively even modification of prices?

Secretary BLOCK. While the administration is considering possible changes in the dairy program as part of the 1981 farm bill, specific decisions on those proposals have not been made.

The argument for annual rather than semiannual adjustments in price support minimum is that the most important decision a dairy farmer makes each year concerns the size of his herd. Before the onset of winter he must decide whether each cow should be kept or culled, and how many replacement heifers should be added during

the year. To make these decisions, he needs to know as much as he can about milk prices and about production costs. That is why he must know what minimum milk price he can expect by early fall and why the timing of the October 1 price adjustment is critical.

Normally, once the annual production decisions are made each fall, additional culling will be very limited. Feed production on the farm will be known. Other feed purchases will be planned and scheduled—in fact for many farmers, much of the high concentrate feed will be on hand. Production plans for the year are basically established and absent sharp economic changes, will not be changed greatly through the year. Because there is no critical planning point in the spring to compare with the feeding and culling decisions made in the fall, there is far less need for a spring change in minimum price supports.

BRUCELLOSIS

Mr. TRAXLER. There is one other matter that is of prime importance to our dairy industry, and this is the problem of brucellosis. Obviously the problem is bigger than just dairy animals, but recent developments within the Department, and in particular the Animal and Plant Health Inspection Service, disturb me. Apparently the agency has discontinued permission for the BBA card test to be used as a private office test, and funds have been removed for the vaccination of heifers, despite the fact that appropriations for the program have been significantly increased. Veterinarians tell me that the card test is of low cost, accurate, and much faster than the alternatives. They also say that vaccinating cows while they are calves results in a lower incidence of the disease when they mature. Have you taken any action to reverse these two orders? By when can we expect a decision?

Secretary BLOCK. With regard to the BBA card test, the Department has accepted the recommendations of the Brucellosis Technical Commission and the U.S. Animal Health Association. That is, the card test will not be used as an official test under ordinary circumstances. It will be used only as a presumptive or screening test prior to final testing of samples by other methods in the laboratory. The basis for this decision is that the card test identifies as reactors animals which react positively because they have been vaccinated with strain 19 vaccine prior to the test. There are three circumstances in which we might recommend the card test as an official test. One is in a livestock market to help move cattle in an orderly manner, not waiting for samples to be sent to the laboratory. The second is in situations where no other test is practical to use. That might be in the case of an owner who had extremely wild animals or animals which were difficult to corral. Third, we might consider the card test as the official test if the owner requests this and if the persons conducting the test were trained by State or Federal officials and evaluated annually for proficiency. The Department has not removed funds for calfhood vaccination; however, we have not had sufficient funds to vaccinate calves at the level requested by States and producers. The Department supports calfhood vaccination as an important part of brucellosis eradication and is working towards eventually vaccinating every calf which will be used as replacement stock.

To summarize, the Department has taken action to reverse one of these orders. We now support an extensive calfhood vaccination program. However, based upon scientific evidence and recommendations from the Brucellosis Technical Commission and the U.S. Animal Health Association, the Department has chosen not to reverse the order on the BBA card test.

RESEARCH FUNDS

Mr. TRAXLER. I suspect that many of my colleagues on this Subcommittee were as happy as I was to see some realistic increases in the fiscal 1982 budget for agricultural research, particularly in Hatch Act funding. All that agriculture is today is a result of years of research, and we need to retain and expand our research base if we are to continue our ability to produce high quantities of quality food products. Are you giving any consideration to cutting research funds in fiscal 1982?

Secretary BLOCK. While we are examining many options for reducing Federal spending, I hope that we can keep agricultural research at the present level shown for fiscal year 1982, or at least minimize any reductions. I believe a strong research program is fundamental to maintaining an efficient agriculture that can help us in the fight against inflation and expand agricultural exports.

LAND GRANT COLLEGES

Mr. TRAXLER. The President has indicated his interest in allowing States to have a greater say in the operation of certain programs in their areas, and this has been the practice for years with agricultural research through the Land Grant College System. Do you envision any modifications in this method of funding research?

Secretary BLOCK. Our science and education system gains considerable strength from the close proximity of science and education expertise with the soil, climate, disease, and pest problems that face producers across this tremendously productive and diverse country. The Land Grant College system has been responsive to the problems at State, regional and national levels. At this time I see no reason for changing the successful formula approach for providing a portion of the research funds used by the Land Grant College system.

STATE ECONOMIC PROBLEMS

Mr. TRAXLER. I am concerned that some States, like Michigan, are suffering severe economic problems, and are not able to contribute as much to some programs like agricultural research as they have previously. Do you intend to take factors like this one into account when providing research funds to States? The reduction in funding by a State for one or two years could be truly devastating if as a result you propose to reduce Federal support in that State, particularly when we remember that research projects typically require five to ten years before completion.

Secretary BLOCK. A primary continuing source of Federal funds to undergird the research programs conducted by the State agricultural experiment stations is the Hatch Act. Funds appropriated under this Act are distributed to the State agricultural experiment stations by statutory formula. A similar condition exists with pay-

ments made under the McIntire-Stennis Cooperative Forestry Act and Animal Health and Disease research under Section 1433, Public Law 95–113. These funds require non-Federal matching.

In the past, some States have had economic problems, but by shifting resources have made a good effort in meeting their research needs. It is recognized, however, that currently a number of State agricultural experiment stations in addition to Michigan are experiencing a reduction in the State research resource base due to severe economic problems within the State. Depending upon the severity of the economic problems within the States, it might be possible that some difficulty may even be experienced in providing the necessary non-Federal matching funds to enable the States to receive all of the Federal allocation.

Under current authorizing legislation for these programs, when the appropriated level of funding is determined, the distribution by State is already set by the statutory formula. States may, of course, compete for some Special Research Grants and the Competitive Research Grants.

RESEARCH ROLE

Mr. TRAXLER. Do you envision any changes in the research role of SEA–AR? Constant proposals over the years to reduce staffing, which this Subcommittee has fought, would result in our inability to provide sufficient research capacity in emergency situations.

Secretary BLOCK. SEA–AR has been and will continue to play a vital role within USDA. I approve the concept of centrally and efficiently organized base of scientific expertise supporting action programs of this and other departments, and will also expect the agency to provide leadership in addressing agricultural problems having broad regional, national and international implications and to respond to emergency situations. However, we will be reviewing all organizational units within the Department in the coming months and will keep this Committee informed of any organizational changes.

TOXICOLOGY RESEARCH

Mr. TRAXLER. As a result of certain chemical contamination problems in recent years, there has been expanded interest in the possibility of the development of a food toxicology research center to operate in conjunction with USDA. Secretary Bergland told me last year that fiscal 1981 funds had been targeted for development of methods of multiresidue analysis. Can you tell me what else the Department may be planning for the future, and whether or not the Department continues to be interested in food toxicology research efforts?

Secretary BLOCK. Conducting activities which assure the citizens of the United States an adequate supply of food and fiber has been a major policy of the Department since its beginning. I plan to continue it by utilizing the authorities granted by Congress.

The concept of an adequate supply of food implies that the materials eaten must not pose a threat to the health of the consumer. Therefore, farming practices should not contaminate the goodness of our food supplies.

Within the Department we will then continue to develop farming methods which will increase production efficiency while keeping health hazards in the food supply at insignificant levels.

In doing this, we are confronted by the fact that the techniques of analytical chemistry have become so refined that a few parts per million or even parts per billion of chemicals having biological activity can be detected in foods. The significance of their presence at these extremely low levels is now a subject of scientific research and debate. However, the present regulatory laws and amendments are quite clear in the case of carcinogens where only a zero level of added material will be tolerated.

Since revision of laws governing the use of toxic materials is now under active consideration by the regulatory agencies and the Congress, we are planning to maintain a modest rate of growth in our toxicology research programs until contemplated regulatory reforms are put in place. These will serve as guidelines for future research programing.

I plan to maintain the USDA capacity to do toxicology research at a high level of excellence since innovations in farming that change chemical and physical state of the food supply and the environment must be proven to present no unacceptable hazard to the citizens of this country if they are to be used.

COMPETITIVE RESEARCH GRANTS

Mr. TRAXLER. If there has been a research program in recent years over which there has been strong differences of opinion, it has been the competitive research grant program. It has been my view that this program could be more costly to administer than the contract grant approach, and that we are turning over decision-making power to individuals who are not responsible to anyone in the government. I have no doubt that the research projects have been by and large quite good, but I continue to doubt the methodology of the program. What are your views on the competitive research grant program?

Secretary BLOCK. I believe there is an important role for the competitive agricultural research grant program. That role should be one of complementing our formula, in-house, and special research grants programs by obtaining the participation of research scientists throughout the country with the expertise to contribute to the selected areas of research. I believe a relatively small competitive research grants program can help focus research expertise and attention on selected frontiers of science of major importance to our long-term food and agricultural interests.

ANIMAL AGRICULTURE RESEARCH

Mr. TRAXLER. From your familiarity with the pork producing industry, I am sure that you are aware of intense interest this year in the expansion of our animal health and disease research efforts. Many notable agricultural researchers met in Michigan last year to discuss our animal agriculture research needs for the next 20 years, and they concluded that we have to provide much stronger support for such research or we will no longer have adequate

supplies of livestock and dairy animals. How important do you believe it is to expand animal research efforts?

Secretary BLOCK. Mr. Chairman, the Department of Agriculture recognizes the importance of the animal industry to the U.S. economy. The conference, "Animal Agriculture: Research to Meet Human Needs in the 21st Century," that was held in Michigan in May 1980, helped identify priorities for future research to enable animal agriculture to efficiently and effectively serve human needs in the next century. Animal health and disease was identified as one of the problem areas that requires additional funding in order to reduce losses. Total losses from all aspects of diseases and pests cost the consumer an estimated $12 billion annually. Animal research and development should receive a major emphasis in order to assure an adequate supply and efficient production of animal products in the future.

SMITH-LEVER FUNDING

Mr. TRAXLER. The budget, as it currently stands, also provides substantial support for Smith-Lever funding for the Extension Service. The Extension Service continues to provide strong support on a daily basis to our farmers, and adequate funding is essential if we are to continue to have information about new farming techniques provided to existing farmers, and basic start-up information provided to new farmers. Will we face any cuts in the Extension programs, or will you continue to support the increased funding level that has been requested?

Secretary BLOCK. The Cooperative Extension Service has since its inception in 1914, played a key role in increasing and strengthening agricultural productivity. Through its unique relationship with the Land Grant University's Experiment Stations and the Agricultural Research units of the Science and Education Administration it is the main link used to disseminate research findings to the people of the nation. Most of this effort is accomplished through the use of Smith-Lever Act funds which are paid to the States and for the most part must be matched by State and local funding. The fiscal year 1981 Budget provides a modest increase for Smith-Lever funds in order to maintain current program levels while we continue to seek ways to use these dollars as effectively as possible.

PROGRAM REDUCTIONS

Mr. TRAXLER. How do you view the proposed cuts in Urban Gardening, Farm Safety and the Bankhead-Jones programs?

Secretary BLOCK. The Department of Agriculture is committed to a constant review and examination of all programs, identifying those that may have served their purpose and must be reduced or terminated to achieve economies in the Budget. Moreover, in most States these programs have become part of the regular program responsibilities and the special emphasis placed upon them at the Federal level is no longer required.

The deletion of the Bankhead-Jones program is necessary in this time of tight budgets where each dollar must be used to finance programs where the need is the greatest. The land-grant institutions use a majority of these funds to support educational programs

in related fields, as opposed to direct support of agricultural education. In addition, these funds account for a very small percentage of all instructional expenditures by the land-grant recipients.

EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM

Mr. TRAXLER. The Expanded Food and Nutrition Education Program has been heralded as one of the most successful nutrition programs operated by USDA. In light of the reductions proposed for the Food and Nutrition Service, are you preparing a reduction in EFNEP funding as well?

Secretary BLOCK. At the present time the reductions proposed for the Food and Nutrition Service do not impact on the EFNEP program. The fiscal year 1982 Budget provides for an increase in EFNEP funding in order to maintain its current program levels. The assistance provided by EFNEP to low-income families, including Food Stamp recipients, will probably be needed more now than in the past.

FGIS SAGINAW, MICHIGAN OFFICE

Mr. TRAXLER. Many of the grain elevator operators in my area have constantly been dissatisfied with the operations of the Federal Grain Inspection Service. They view the Saginaw office of FGIS as overstaffed, and sometimes not sufficiently capable of performing their tasks, particularly when it is suggested that they provide grading and inspection services for dry beans. Last year this Committee directed that an evaluation be done of the staffing levels at the Saginaw FGIS office, and I understand that the report has been completed. Can you provide a copy for the record?

Secretary BLOCK. Yes sir, a copy of the Office of the Inspector General Audit Report that examines personnel requirements and utilization at the FGIS Saginaw office follows. The problem about FGIS not being sufficiently capable of providing grading and inspection services for dry beans under the U.S. Standards is now the primary function of an employee of the State of Michigan. FGIS will perform these duties in a back-up capacity when warranted. As you know, only a few inspections for dry beans, graded under U.S. Standards, are requested per year. Almost all of the dry beans graded in Michigan are graded under State standards not under the purview of the FGIS.

[The report follows:]

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FEDERAL GRAIN INSPECTION SERVICE
SPECIAL AUDIT REPORT OF PERSONNEL
REQUIREMENTS AND UTILIZATION
AT SAGINAW, MICHIGAN AND
TOLEDO, OHIO FIELD OFFICES
AS OF NOVEMBER 18, 1980
AUDIT REPORT NO. 3799-1-Ch

U.S. Department of Agriculture
Office of Inspector General - Auditing
Midwest Region
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I - INTRODUCTION

A. AUDIT SCOPE

This report presents the results of a special audit of the Federal Grain Inspection Service (FGIS) at two field offices we audited located in Saginaw, Michigan and Toledo, Ohio. The audit was conducted because Hearings before a Subcommittee of the Committee on Appropriations on Agriculture, Rural Development and Related Agencies for the 1981 Fiscal Year included a statement that "the Committee is concerned over reports of excessive staff at some Federal Grain Inspection Service Field Offices, particularly in regions where some of their activities have recently been turned over to contractors." The Committee directed the Inspector General to audit the personnel requirements and utilizations of the Federal Grain Inspection Service Office in Saginaw, Michigan, and similar offices, and to report his findings to the Committee. Therefore, the findings of this audit pertain to these offices and may not be representative of FGIS field offices Nationwide.

The objectives of our audit were (1) to review the inspection and weighing workload in Saginaw and Toledo, (2) to determine if the staffing at each office was sufficient to handle the workload, and (3) to determine whether the personnel assigned were being used effectively.

Our review covered the period October 1, 1979, to August 9, 1980. We reviewed inspection and weighing documents and employee attendance (T&A) reports to determine the utilization of FGIS employees. We also reviewed FGIS Industrial Engineering Surveys for staffing and personnel utilization and workload analysis and interviewed field office supervisors to determine staffing requirements as recommended by the agency.

We attempted to measure the impact of potential cost savings to the industry as a result of the Ashley Bill (S.2886) which amended the United States Grain Standards Act by eliminating the mandatory inbound weighing of intercompany grain at export elevators.

B. BACKGROUND INFORMATION

The Federal Grain Inspection Service (FGIS) was established on November 26, 1976, pursuant to the U.S. Grain Standards Act, as amended (Public Law 94-582). The Act was amended in 1977 to provide an advisory committee, technical amendments, and appropriation funding for field supervision (7 U.S.C. 71 et. seg.).

FGIS carries out grain inspection and weighing programs under the authority of the Agricultural Marketing Act of 1946, as amended. The programs under the Agricultural Marketing Act include the inspection and grading of rice and grain related products as they were assigned to the agency by the Secretary of Agriculture under the authority of the Reorganization Plan Number 2 of 1953.

The official Congressional Declaration of Policy under the United States Grain Standards Act states in part, that "it is declared to be the policy of the Congress, for the promotion and protection of such commerce in the interests of producers, merchandisers, warehousemen, processors, and consumers of grain, and the general welfare of the people of the United States to provide for the establishment of official United States standards for grain, to promote the uniform application thereof by official inspection personnel, to provide for an official inspection system for grain, and to regulate the weighing and the certification of the weight of grain shipped in interstate or foreign commerce in the manner hereinafter provided; with the objectives that grain may be marketed in an orderly and timely manner and that trading in grain may be facilitated."

FGIS requested an estimated budget of $25,957,000 for Fiscal Year 1981. However, hearings before the House Appropriations subcommittee on Agriculture, Rural Development and Related Agencies recommended that the Fiscal Year 1981 budget be reduced $3,500,000. The Committee recommended a reduction of $3,000,000 due to the impact of the hiring freeze in Fiscal Year 1980, on Fiscal Year 1981 employment levels. The subcommittee was concerned over reports of excessive staff at some Federal Grain Inspection Service field offices, particularly in regions where some of the activities have been turned over to contractors.

II - HIGHLIGHTS

Our audit disclosed that the Saginaw and Toledo field offices were not excessively staffed to carry out the provisions of the U.S. Grain Standards Act.

We performed a workload analysis based on inspection and weighing activities at each field office and compared the results to the recommended staffing guidelines developed by FGIS Headquarters. Essentially, the guidelines provide for a minimum to maximum range of staffing for field offices in consideration of the seasonal variance of the workload. For Saginaw, we confirmed that the minimum requirement is seven and one-half and the maximum is fourteen and one-half persons. For Toledo, we confirmed that the minimum is thirty-six and one-half

and the maximum is seventy and one-half persons. The two field offices have currently eleven and fifty one full time employees, respectively. In addition, the Toledo office has thirty-two intermittent employees. There are no intermittent employees working in the Saginaw office.

In addition to providing service to the export grain elevators in their respective areas, the field office personnel have other duties to perform at various locations. These include supervising the designated agencies (private companies that perform official inspection services), performing inspection at inland locations, and making storage examinations.

Considering the total workload, we believe that the above staffing is reasonable and proper at each location. We could not, however, compare the utilization of personnel between the two field offices because of the difference in size and volume of grain handled in Toledo, as compared to Saginaw, which is much smaller.

Legislation sponsored by Representative Thomas Ashley of Ohio amended the U.S. Grain Standrds Act, effective October 14, 1980. The major changes of the amendment eliminated the mandatory inbound weighing of intercompany and intracompany shipments of grain to export elevators in all cases, except shipment by barge. The relaxation of the inbound weighing requirement could potentially save the private grain industry about $200,000 annually for inbound weighing of grain shipments.

We found at the Saginaw and Toledo offices that security over Government weight and inspection certificates should be improved.

III - RECOMMENDATIONS AND DISCUSSION WITH MANAGEMENT

A. RECOMMENDATIONS FOR THE ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE, WASHINGTON, D.C.

Instruct the Chicago Regional Office to:

1. Use full-time employees who had previously performed inbound weighing functions to perform other FGIS functions as a means of reducing overtime. (See Audit Results - 3)

2. Require the Saginaw field office to use a sign out log to document the date, person, and sequential numbers of weight and inspection certificates being removed as a control measure to decrease the chances of such certificates being lost or stolen. (See Audit Results - 4)

3. Require the Toledo field office to place the unused weight and inspection certificates in an area where only FGIS employees have access to them. (See Audit Results - 4)

B. DISCUSSION WITH MANAGEMENT

We discussed the findings and recommendations of this audit on November 18, 1980, with FGIS officials:

The following FGIS officials attended the discussion:

Dr. Leland E. Bartelt	-	Administrator
David C. Mangum	-	Assistant Deputy Administrator, Program Operations (Field)
John W. Marshall	-	Director Inspection Division
J. J. Abshier	-	Director Compliance Division

The Office of Inspector General - Auditing was represented by the following:

Albert Clepper	-	Director Marketing and Consumer Program Division
Walter D. Farrell	-	Marketing and Consumer Program Investigations
Larry G. Harton	-	Supervisory Auditor, Midwest Region
Frank Sikon	-	Auditor-in-Charge, Midwest Region

The FGIS officials agreed with our audit results as reported. Dr. Bartelt stated that as a result of the passage of the Ashley Bill, FGIS has reduced their staff by 38 personnel. In addition, FGIS has given all export elevators until November 3, 1980, to determine whether or not they want FGIS Class X or Class 4 weighing service. Thus far only 18 of 88 export elevators have dropped the Class X weighing.

IV - AUDIT RESULTS

PERSONNEL REQUIREMENTS

1. Our audit disclosed that the Saginaw, Michigan and Toledo, Ohio, FGIS field offices were not excessively staffed to perform their duties as required under the Federal Grain Standards Act.

Pertinent sections of the Act state in part, Sec. 5(a)(1), "No person shall ship from the United States to any place outside thereof any lot of such grain, unless such lot is officially weighed and officially inspected; (2) all other grain transferred out of and all grain transferred into an export elevator at an export port location shall be officially weighed, and (3)(b) all official inspection and official weighing, whether performed by authorized Service employees or any other person licensed under Section 8 of this Act, shall be supervised by representatives of the Administration."

In 1979, FGIS developed an Industrial Engineering Survey Guideline for each field office to establish an appropriate staffing pattern. Basically, the guidelines used the "basic" staffing as the minimum staffing requirement and the maximum staffing as the most conceivable staffing required at a grain elevator. A minimum and maximum range of personnel was indicated due primarily to the personnel relationship of the workload with a low period of activity occuring between December and March.

Our audit confirmed that the following FGIS personnel requirements were needed at the two field offices. The Saginaw office requires a minimum of 7-1/2 and a maximum of 14-1/2 personnel to perform supervision of inbound and outbound weighing and provide official inspections at the two export elevators they supervise. The Saginaw FGIS office must also supervise two designated agencies that provide official services for the nonexport locations in the Saginaw area. The official agencies were designated to perform official inspection services in areas previously inspected by the Saginaw office, effective February 24, 1980. These are the Detroit Grain Inspection Service, Inc. of Detroit, Michigan and the Grain Inspection Service, Inc. of Battle Creek, Michigan. Also, the FGIS personnel must perform reinspections, appeal inspections, submitted sample inspections and stowage examinations. The Saginaw office had 11 full time employees at the time of our audit. During their busy season, from April to the close of the shipping season in mid December, the Saginaw office uses personnel from other offices and necessary overtime to perform all of the required

services. The FGIS field supervisor stated they had tried to use intermittent part time employees, whose total hours worked cannot exceed 1,280 hours in a calendar year, to cut down on the necessary overtime, however, none were available in the Saginaw area.

The Toledo, Ohio office requires a minimum of 36-1/2 and a maximum of 70-1/2 personnel to perform the required weighing and inspection functions at the four export elevators in their jurisdiction. In addition, FGIS personnel must supervise three designated agencies and perform the same types of inspections that the Saginaw office performs. The Toledo office has 51 full time and 32 intermittent employees at the time of our audit. The Toledo office also uses necessary overtime and intermittent employees to perform all of the required services. FGIS personnel stated that use of intermittent employees cuts down on the amount of overtime required of full time employees. The use of intermittent employees was also beneficial to FGIS in that they are a lower grade and the margin between the charges to the elevators and cost to FGIS is greater using intermittent rather than full time employees.

Considering the total workload, we believe that the above staffing is reasonable and proper at each location.

PERSONNEL UTILIZATION

2. The Saginaw and Toledo FGIS field offices found it necessary to bring in some type of temporary help and use necessary overtime in order to accomplish the requirements set forth by the U.S. Grain Standards Act. We noted that overtime accounted for as much as 39 percent of the total time worked.

Section 2 of the United States Grain Standards Act contains the declaration of policy which states in part "to provide for an official inspection system for grain, and to regulate the weighing and the certification of the weight of grain" "regulation thereof as provided in this Act is necessary to prevent or eliminate burdens on such commerce and to regulate effectively such commerce."

During the peak shipping season from April to December, ships are loaded on a 24 hour basis and thus FGIS must provide inspection and weighing services on a 24 hour basis. This results in necessary overtime and utilization of intermittent employees to provide the required services.

In Saginaw, Michigan, the total grain weighed during the period from October 1, 1979 to August 9, 1980, was approximately 630,108 tons. The charges to the two export grain elevators for FGIS weighing service amounted to $77,710, of which $39,267 was for inbound weighing. In Toledo, the total grain weighed during the same time period was 7,905,015 tons. The charges to the four export grain elevators for FGIS weighing service amounted to $312,371, of which $159,309 was for inbound weighing.

The following are some of our observations at these two field offices.

SAGINAW

We found that in order for the Saginaw office to effectively regulate the grain industry in its area, a lot of overtime was required of FGIS employees. For the weighing function, we found that during the shipping season the time devoted to weighing ranged from 15.5 to 70 percent of total time worked and overtime compared to total time reported for weighing ranged from 9 to 39 percent. (See Exhibit A for a monthly tabulation showing hours devoted to the weighing function.)

The inspection function is another function performed by FGIS employees in Saginaw to regulate the grain industry. The amount of time devoted to inspection to total hours worked ranged anywhere from 30 to 96 percent and overtime ranged from 2 to 18 percent of total hours devoted to inspection. (See Exhibit A for a monthly detail of hours devoted to inspection.) There were 4,724 inspections performed during the period of our audit. The personnel also made 67 supervisory visits to the 2 designated agencies in their area. The two designated agencies expanded their operations, effective February 24, 1980, to cover all of the Saginaw field office area and it is the Saginaw field office responsibility to ensure that the designated agencies were able to handle the increased workload.

TOLEDO

We found that the amount of overtime needed to perform the weighing function at the Toledo, Ohio field office ranged anywhere from 13 to 22 percent during the shipping season and the percentage of time devoted to weighing ranged from 38 to 54 percent. (See Exhibit A for more details.)

To perform the required inspection function, the Toledo field office employees put in from 9 to 24 percent of overtime hours to total hours devoted to inspection. The amount of time inspections were performed as a percent of total time worked ranged from 46 to 85 percent. (See Exhibit A for more details.) They performed 19,156 inspections and made 24 supervisory visits to the 3 designated agencies in their area during the period covered by this audit.

Due to the fact that there are peak and slow seasons in the shipment of grain, it affects the number of personnel and the amount of necessary overtime in these field offices. The required services are being provided by utilizing full time and intermittent employees and necessary overtime as dictated by seasons and volume of grain being shipped. Therefore, we could not compare the utilization of personnel between the two field offices because of the difference in size and volume of grain handled in Toledo, as compared to Saginaw, which is much smaller.

AMENDMENT TO THE UNITED STATES GRAIN STANDARDS ACT

3. There is a bill in Congress, (the Ashley Bill) which would amend the United States Grain Standards Act to eliminate mandatory inbound weighing. Subsequent passage of the Ashley Bill would make a total of nine full time FGIS employees in the Saginaw and Toledo field offices, who are presently performing inbound weighing, available to perform other weighing or inspection functions. The elimination of inbound weighing would also save the export elevators a large percentage of the charges they are currently paying FGIS for inbound weighing. In addition, FGIS would save the cost of at least 32 intermittent employees salaries.

Representative Thomas Ashley of Ohio, sponsored a bill, hereinafter referred to as the Ashley Bill, S.2886, to amend the U.S. Grain Standards Act to permit grain delivered to export elevators by any means of conveyance other than barge to be transferred into such export elevators without official weighing.

At the Saginaw, Michigan field office area, we found that the two export elevators were charged approximately $77,711 for weighing service provided by FGIS. To determine the cost for inbound grain weighing, we used the weight of inbound grain divided by the total weight of grain weighed both inbound and export to determine the percentage of grain which was weighed inbound for the time period from October 1, 1979 to August 9, 1980. We arrived at an inbound percentage of 50.5 percent. We took that percentage times the total charges for weighing services provided to the export elevators and determined that the inbound weighing charges were about $39,267.

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At the Toledo field office, we used the above computation to determine the same percentage of grain which was weighed inbound. We determined that the percentage was 51 percent. We took that times the total charges for weighing service provided for FY 1980 to August 9, 1980, a total of $312,371, and determined that inbound weighing charges were $159,309.

FGIS personnel at both field offices informed us that if the Ashley Bill passed, 9 full time and 32 intermittent employees could be eliminated.

During the completion of this audit, the legislation sponsored by Representative Thomas Ashley of Ohio passed, and amended the U.S. Grain Standards Act effective October 14, 1980. The major changes of the amendment eliminated the mandatory inbound weighing of intercompany and intracompany shipments of grain to export elevators in all cases, except shipments by barge.

We believe that the above nine full time employees could be used on other FGIS functions to decrease the amount of overtime required of the other full time employees.

SECURITY OVER DOCUMENTS

4. At both offices, we found that security over official government certificates should be improved. We found that the weight and inspection certificates at the Saginaw field office are removed without any type of accountability being maintained. Without a sign out log, internal control over the sequentially numbered certificates is weak. Certificates could be used out of sequence or become lost. Without a proper audit trail, it would be difficult to determine the cause of and corrective measures needed to handle discrepancies resulting from incorrect or improper usage of official certificates. A system that requires the use of an accountability document, such as a sign out log, would ensure that some type of accountability is maintained.

At the Toledo field office we found that although the office is located on the sixth floor a large supply of unused weight and inspection certificates are kept in a locked but unattended storage room in the basement. There are boxes of unused certificates stacked on the floor and on open shelves. In addition to FGIS

personnel having keys to the storage room we noted that the janitors and building security personnel also had keys. Internal control over the certificates could be improved by storing the certificates in the FGIS office on the sixth floor.

JAN 28 1981

Acting, Assistant Inspector General

IN-BOUND WEIGHING

Mr. TRAXLER. I understand that with the passage of the Ashley Bill, there will be less work for FGIS to perform as a result of the elimination of in-bound weighing requirements. Does this mean that we can expect a reduction in the number of personnel assigned to the Saginaw FGIS office? If not, why not?

Secretary BLOCK. Yes, there will be a reduction in the personnel in the Saginaw FGIS office. I will be happy to supply for the record the specific reductions.

The information follows:

The Department plans to reduce Saginaw staff from 16 Agricultural Commodity Graders and one and one-half clerks to 13 Agricultural Commodity Graders and one clerk. As of now, we have been able to reduce the staff even further than this. The Office of the Inspector General Audit Report that examined the personnel requirements and utilization of the FGIS Saginaw office, indicates that the minimum requirement is seven and one-half and the maximum is 14 persons. Therefore, we believe that our present staffing of 10 Agricultural Commodity Graders and one clerk is appropriate.

DEVELOPMENT OF PROPOSED BUDGET CHANGES

Mr. TRAXLER. The President is proposing a number of changes in Farmers Home operations. Can you tell me if these changes from the Carter budget were proposed by the agency, the Department or OMB? Was the agency directed in advance to make a cut of a certain amount, and told to come up with a way of achieving that cut?

Secretary BLOCK. As you know, Mr. Traxler, the budget process is not always the smooth process that is described in the text books. During the development of the President's Program for Economic Recovery which he announced last night input from many levels was received. I and my staff have been and will be involved in discussions with other parts of the Government. We win some and lose some. Still, we can fully support the program and will be working with Congress to see it implemented.

FMHA ALCOHOL FUELS PROGRAM

Mr. TRAXLER. You want to terminate the alcohol fuels program operated by FmHA. Does this mean that farmers will no longer be able to apply for a loan for such a project as a general business and industrial loan project?

Secretary BLOCK. Alcohol fuel production could continue to be an eligible purpose of both the business and industry loan program and the basic farm loan programs.

Mr. TRAXLER. Do you honestly believe that there are sufficient sources of capital in rural areas willing to take the high risk associated with these innovative projects that are intended to help meet our growing energy problems, particularly on farms?

Secretary BLOCK. We are not saying that everything will go smoothly on or off the farm. We believe, however, it is better to build a strong energy industry on a realistic basis rather than to provide Federal assistance.

INTEREST RATES IN FMHA PROGRAMS

Mr. TRAXLER. As a general policy, are you proposing any modifications in the interest rates associated with the various FmHA programs? If so, what are your reasons for each rate change?

Secretary BLOCK. We are proposing that the interest rates charged in the water and waste disposal loan program and the community facilities loan program be changed to more accurately reflect the rate charged on bonds for similar purposes in the credit market. In addition, we are reviewing all loan programs to determine appropriate interest levels which would reduce the net interest cost to the Federal Government.

Mr. TRAXLER. Farmers often cannot afford market-rate interest and continue to operate. What do you propose to do if these proposals result in a larger number of farmers getting out of farming?

Secretary BLOCK. We feel that high interest rates are caused by excessive federal spending and over-involvement in the credit markets. The President's Program for Economic Recovery which he announced last night will focus on these problems. At the same time, however, we will be providing farmers with access to credit at more realistic interest rates, but below the prevailing rate in most markets.

FMHA AS LENDER OF LAST RESORT

Mr. TRAXLER. FmHA was set up with the intention of being lender of last resort to help those who were at a higher credit risk to stay in operation. Is the Administration proposing a basic change in this philosophy?

Secretary BLOCK. Our philosophy has not changed. In fact, Farmers Home has taken several steps during the last several months to tighten up the credit-elsewhere provisions in the emergency disaster loan program, and we will be proposing legislation to repeal the provision enacted last year that requires us to make emergency loans to those who can obtain credit elsewhere. It is our intent to focus on the most needy individuals and communities in our programs.

EMERGENCY DISASTER LOANS

Mr. TRAXLER. There have also been some disturbing reports that OMB wants to force you to limit the Department to a single level of disaster assistance. We have never been able to precisely fund the disaster program because you just cannot anticipate disasters a year in advance. I realize that there can be some reductions as a result of the new Federal Crop Insurance Program, but do you believe that it is realistic to say that you will be able to limit yourself to a specific disaster amount? What happens if you run out of money in May and there is another disaster somewhere else in June?

Secretary BLOCK. Current legislation provides for emergency disaster loan funds in such amounts as may be necessary to meet the needs resulting from natural disasters. We have no plans to request a change to this authority. Let me hasten to say, however, that we expect to rely heavily on the expanded crop insurance program to help mitigate the effects of natural disaster crop losses.

We would encourage all farmers to participate in the insurance program where possible.

WATER AND WASTE DISPOSAL LOANS

Mr. TRAXLER. You say that you want to restrict access to water and sewer loans to the smallest and poorest communities, so small that they cannot participate in a bond market, or so poor that they need a grant. What kinds of standards are you developing to impose this policy? Do you believe that you have sufficient legislative authority for such a change?

Secretary BLOCK. It may be more accurate to say that we will emphasize small and needy communities in the water and waste disposal loan program rather than restrict loans to such jurisdictions. Data on the area income and user service charges will be used to determine the relative economic situation of an applicant community. These determinations can be accomplished under current legislative authority.

ASCS OPERATIONS

Mr. TRAXLER. This Committee has always supported the Agricultural Stabilization and Conservation Service, and especially its county operations with the County Committee having a large say over operations. Do you envision any changes in this operation during your tenure?

Secretary BLOCK. I appreciate your expression of support for the ASCS county committee system. At this early date, I do not foresee such changes.

FISCAL YEAR 1982 AGRICULTURAL CONSERVATION PROGRAM

Mr. TRAXLER. Do you propose any changes in the operations of the Agricultural Conservation Program, or in the fiscal 1982 budget proposal? I doubt that there would be strenuous objection to an increase in the program.

Secretary BLOCK. Since a number of changes to the FY 1982 Budget are still under consideration, it would be premature for me to try to answer your question at this time. As you know, a comprehensive budget revision package will be transmitted to Congress March 10 or shortly thereafter.

FOOD STAMPS

Mr. TRAXLER. One of the most controversial proposals you have is likely to be for reduction in the Food Stamp Program. No one wants those who do not need the program to receive benefits, but I suspect that there will be a major disagreement over those who are the "truly needy". What is your definition of "truly needy"?

Secretary BLOCK. We propose to eliminate from the program those families with gross incomes over 130 percent of the poverty line. A family of four could have up to about $11,000 and still be eligible for food stamps under our proposal.

Mr. TRAXLER. It may be fair to say that those likely to lose benefits are those who are currently receiving the lowest monthly benefit amount. Quite often these are senior citizens who are re-

ceiving only $10 a month in food stamps, and are only able to do so because of the special deductions they are receiving for shelter allowances and medical care. Can you identify exactly who will be losing the benefits? I don't mean "who" in terms of income classification, but "who" in terms of the type of person who will be likely to face these cuts.

Secretary BLOCK. Overall, 5 percent of all households currently participating in the program would lose their eligibility. Households with earnings are most affected and 13 percent will lose eligibility. Four percent of all households with an elderly member will lose eligibility. Approximately 6 percent of all female-headed households with children will lose eligibility.

The proposal affects a smaller percentage of households in the South than in other regions, reflecting regional patterns of income and transfer assistance. Four percent of all households in the South will lose eligibility compared with 7 percent in the West, 6 percent in the Northeast and 5 percent in the North Central region.

Mr. TRAXLER. There is the very real danger that those who will lose food stamp benefits will not be able to replace the stamps with some other form of income to continue to buy the same amount of food. This will result in lower nutrition for those losing the benefits, and doctors say that malnutrition is one of the biggest causes of illness among senior citizens, often resulting in the person being placed in a hospital or a nursing home when this extremely high medical cost could have been avoided by just providing a little more food. What do you think will happen to the people who will lose food stamp benefits, and what is the basis for your belief? Has the Department or some other source conducted a study that can substantiate your assessment?

Secretary BLOCK. The Department has analyzed the distribution of recipients made ineligible by the food stamp proposal. Under the President's plan, those who will become ineligible for the Food Stamp Program are primarily households at the upper end of our income scale, so they do not stand to lose substantial amounts of benefits. Elderly households with higher income will be made ineligible by the proposal. There are many other studies that indicated inflation may tax the elderly disproportionately, and therefore reducing inflation will have beneficial effects to those persons.

Mr. TRAXLER. Senior citizens often find that they lose food stamp benefits as a result of increases in social security payments. The net result is that they are no better off than they were before. Are you willing to support any changes which would exclude even a portion of social security payments from being used in determining a person's income for food stamp eligibility?

Secretary BLOCK. We don't feel it would be good policy to add an income exclusion for social security increases. Our program is adjusted annually for cost of living increases in terms of the poverty line which is used to determine the income limits, and the Thrifty Food Plan, the diet plan which is used to determine the food stamp allotment levels. To further adjust our income eligibility standards to give social security recipients a break would add a great deal of administrative complexity, and it would be inequitable to exclude

social security increases while counting wage increases that working people receive.

Mr. TRAXLER. You also want to reduce food stamp benefits by an amount equivalent to the value of a family's participation in the school lunch and breakfast programs, claiming that these families are receiving double benefits. Testimony before this Committee in prior years has demonstrated that the school feeding programs only complement the Food Stamp Program in helping poor children receive a minimally adequate diet. How do you respond to this claim?

Secretary BLOCK. Food stamp benefit levels are based on the cost of the Thrifty Food Plan. The Thrifty Food Plan developed in 1975, assumed 3 meals a day eaten at home for each family member. It is true that certain types of households will have to shop carefully to obtain nutritionally adequate diets because some household members such as teen-age boys, may have greater than average food needs, but adequate diets can still be obtained for all members in these households.

For families that receive both food stamps and free school lunches, their food stamp benefits would be reduced under the Department's proposal. Participation in the breakfast program would not, however, affect their level of food stamp benefits. This decision was made because breakfast programs are not as widely available as the lunch program. Furthermore, where breakfast is available children may not get to school in time to take advantage of the program.

Mr. TRAXLER. The Food Stamp Program is based on the Thrifty Food Plan—the cheapest food plan around. Nutritionists have claimed that the plan does not provide a nutritionally adequate diet, and have called on the Department to revise the design of the plan to recognize this fact. Do you plan to seek such revisions and the increase in food stamp benefit levels that would result from this plan?

Secretary BLOCK. The Thrifty Food Plan is the least costly of the four food plans developed by the Department of Agriculture. The foods in the plan provide for a nutritionally adequate diet—one that meets all the RDA's—for those nutrients for which we have adequate nutritional data. It is based on actual food consumption patterns obtained through household surveys. We are currently in the process of reviewing the Thrifty Food Plan, incorporating results from the 1977 and 1978 Nationwide Food Consumption Survey and new information on dietary requirements.

Our consideration in choosing the Thrifty Food Plan rather than a higher-cost plan has been primarily the total number of dollars which can be allocated for the Food Stamp Program. At a given spending level, higher benefits may require us to make other program changes which would eliminate many people from the Food Stamp Program. In developing food stamp policy, we have tried to develop a sensitivity to the tradeoffs between benefit and participation levels, and our proposals have been made with these in mind.

Mr. TRAXLER. Counting school lunches and breakfasts will be a massive task. You will be requiring more reporting than ever before by individual schools, and will be requiring a cross-check system with food stamps that I cannot even begin to imagine.

Exactly how are you going to accomplish this increased administration?

Secretary BLOCK. The Department's proposal would adjust food stamp benefits only to account for the receipt of school lunches. Breakfasts would not be considered under this proposal. While the details of administering the school lunch proposal are still being developed, we do not plan to require reporting by schools. We intend to use a standardized approach to counting the value of school lunches that will be as simple as possible to administer.

Mr. TRAXLER. School officials tell me that the one thing they dislike most about the school feeding programs is all of the reporting they have to do. How do you think they are going to feel about your requirements for food stamps, assuming that you are given the authorizing legislation?

Secretary BLOCK. Since, as I mentioned, we plan to develop a standardized approach to counting the value of school lunches that will not require any reporting by the schools, we anticipate no additional burden placed on the schools.

Mr. TRAXLER. You want to change the income eligibility levels and use prior month earnings instead of projected earnings for purposes of determining eligibility. Won't this create a lag time between a person's unemployment and their ability to receive food stamps? What kinds of people are most likely to be affected by this change?

Secretary BLOCK. The monthly reporting and retrospective accounting system that is proposed by the Department uses a purely retrospective accounting system for eligibility and benefit determinations. Under such a system, a household must be eligible for the program during the prior 30 days before receiving benefits. This can create a lag between a person's unemployment and receipt of benefits. For example, if a household applies for benefits immediately on becoming unemployed and has had gross income above 130 percent of the poverty line in the prior month, the household will not be eligible for benefits. Thus the proposal will tighten the targeting of the program by delaying eligibility for households with higher annual income and perhaps removing from program participation those households with higher annual incomes and short periods of unemployment. Frequently, however, persons do not apply immediately for food stamp benefits. These households may not face a lag between application and a determination of eligibility.

In certain cases, a household will be immediately eligible for Food Stamp Program benefits. In order to protect households that have immediate need, the Department will develop a supplement system to insure that households are issued benefits without undue delay. This system will guarantee that the program's retrospectivity for eligibility determinations will not cause unnecessary hardship.

Mr. TRAXLER. Have you corrected Secretary of the Treasury Regan's impressions of what college students are eligible for food stamps, namely 40 percent are single women with children, 1 in 6 is over age 60, and that the 47,000 college students receiving stamps are only two-tenths of one percent of the entire food stamp population? There are additional special eligibility requirements

beyond low income and willingness to work requirements for college students who want food stamps, and the purchase of liquor and tobacco is strictly prohibited. I want the record to show that the problem of college students on food stamps is one which is very tightly controlled.

Secretary BLOCK. I have not yet spoken about the college student issue with Secretary Regan.

SCHOOL LUNCH

Mr. TRAXLER. The President may have said that there will be no changes in the free lunch program, but there will be some changes in the reduced price lunch program. Can you tell me what they will be, and how many children will be affected?

Secretary BLOCK. The President's proposal contains changes in the reduced price school lunch program. These changes would eliminate the standard deduction to $1,080 per year in school year 1981–82 regardless of family size and in calculating reduced price eligibility at 185 percent of the poverty level. For example, the income eligibility level for a family of four would be reduced from $16,710 to $15,630 per year. It would also reduce the reimbursement rate for reduced price lunches from $1.09 to an estimated 64 cents per meal.

The elimination of the standard deduction will make approximately 250,000 children who currently receive reduced price meals ineligible for this portion of the program. The 1.5 million participants who remain eligible for reduced price lunches could face higher meal prices because of reduced Federal subsidies. However, reduced price meals will still receive approximately 64 cents in Federal subsidies in fiscal year 1982 which will make them a substantial bargain for these children from middle income families.

Mr. TRAXLER. Is there a possibility that the reduced number of lunches will encourage some schools to drop the program, resulting in a loss of meals for children who would otherwise be receiving them?

Secretary BLOCK. While Federal subsidies to paid and reduced price meals will decrease, we are hopeful that State and local agencies will be able to offset some or all the decreases. In some circumstances, where no additional State or local funds are made available for the NSLP, some schools or school districts may find it difficult to cover their program costs with the revenue available to them. Some such schools may drop out of the school lunch program. We are conducting some further analysis of data from recent studies of the school lunch program in an effort to more accurately predict how many schools might decide to leave the program. However, as in the past, the operation of a lunch program will continue to be a local decision.

Mr. TRAXLER. In the fiscal 1981 agricultural appropriations act, we authorized some pilot projects using cash or vouchers in lieu of commodities. This was done with the express understanding that those schools in the pilot project would not receive reimbursements in excess of the regular school lunch program, and that the Department would run a concurrent study on the impact of this modification in the lunch program on the cost of food for other programs like Elderly Feeding and the Commodity Supplemental Feeding

Program. Has anything been done yet to implement any of these pilot projects, or is this affected by the freeze on new regulations?

Secretary BLOCK. The implementation of the Alternative Commodity Distribution Demonstration is not affected by the freeze on new regulations. Currently, the Department is preparing operational procedures to establish the demonstration in 90 school districts across the nation. Thirty districts will receive cash-in-lieu of commodities; 30 districts will receive commodity letters of credit; and 30 districts will serve as control sites operating under the existing commodity donation program. Pending a final review of the project by the Administrator of the Food and Nutrition Service, a Notice of Intent will be published in the Federal Register that will solicit applications from school districts to participate as demonstration sites.

A study to evaluate the demonstration has been developed and a contract to support the conduct of this evaluation will be negotiated shortly. As requested by Congress, the overall evaluation plan will be submitted to the House Committee on Education and Labor and the Senate Committee on Agriculture, Nutrition, and Forestry for review prior to implementation.

Mr. TRAXLER. There was one proposal made to modify the competitive food regulations in the closing days of the Carter Administration. The proposal was to exempt dormitory areas at boarding schools utilizing the school lunch program from the competitive food regulations which required shutting down vending machines at meal times. This rule was a particular hardship on one school in my Congressional District, the Michigan Lutheran Seminary, and I am interested in knowing if this proposal is being enacted or has it been frozen? By when can I expect to be notified of final action on the rule?

Secretary BLOCK. The proposed rule to exempt the living quarters of residential educational units, which includes boarding schools, from the restrictions of the competitive foods rule was published in the Federal Register on Friday, January 16, 1981. The 60-day comment period ends on March 17, 1981. Comments will then be analyzed and considered for incorporation into the final rule. We expect to issue a final rule on this matter this summer.

ADMINISTRATIVE COSTS OF FEEDING PROGRAMS

Mr. TRAXLER. You are proposing many changes in the operation of feeding programs that will result in increased administrative burdens. Have you conducted an assessment of these administrative costs, and how will the increased cost of administration compare with what you call "savings"?

Secretary BLOCK. The change that you refer to is our proposal to require income verification of a portion of the free and reduced price meal applications. While the change would increase administrative costs, we do not have specific data that indicate how much of an increase would occur. Data from a recent OIG study, however, indicate that there are some methods of income verification that can be undertaken with minimal increased administrative costs. We are planning a study of income verification to provide further information on this subject.

COMMODITY SUPPLEMENTAL FEEDING PROGRAM

Mr. TRAXLER. This Committee has also been very supportive of the Commodity Supplemental Feeding Program (CSFP). So far it appears as if the funding level of $30.5 million proposed in the Carter budget will be allowed to stand. Do you plan on submitting any changes in this funding request for fiscal year 1982?

Secretary BLOCK. The funding of the Commodity Supplemental Food Program for fiscal year 1982 is under review.

Mr. TRAXLER. There have been some expressions of interest in new CSFP programs being started, and of existing ones expanding. The primary reason for the expansion, primarily in Detroit and New Orleans, has been the fact that our economic downturn has placed more people in need. The CSFP program should be to the President's liking. It is one of the lowest cost programs that USDA operates. Its administration depends upon the interest of local groups. It minimizes bureaucratic contact for recipients, and it provides nutritious meals from basic farm stocks with minimal processing. What do you foresee as the future of CSFP?

Secretary BLOCK. We will be better able to foresee the future of the Commodity Supplemental Food Program when final funding levels for the program have been decided.

Mr. TRAXLER. Last year the Food and Nutrition Service started paying more public notice to CSFP and has been helping people understand more about the program. Do you intend to continue, and if not, why not?

Secretary BLOCK. Within funding available for the program, we intend to continue our efforts for effecting more awareness of CSFP and helping people better understand its purpose and goals.

Mr. TRAXLER. Last year CSFP operators were told that they could expect to receive some cheese for the program. Recently they were advised that they would not get the cheese. Particularly in light of the criticism that there has been for the accumulation of dairy products in Commodity Credit Corporation stocks, isn't there some way in which you can reinstate the option of providing cheese to those locations capable of handling it in the CSFP Program?

Secretary BLOCK. The decision not to include cheese in the food package for the CSFP was made because of the need to limit the cost of the food packages. Because of dairy surplus, FNS is presently working with ASCS to donate cheese as a bonus to the CSFP. This donation will be outside the food package and will continue only so long as cheese remains in storage.

Mr. TRAXLER. Mr. Secretary, have you ever visited a CSFP site? If you haven't, I know that I can advise you that the people who run Focus: HOPE in Detroit, the largest CSFP in the nation, would be more than happy to have you visit and advise you as to the operation of the program. Vice President Bush visited the program while in Detroit last year.

Secretary BLOCK. No, at the present time I haven't. However, I am anxious to become as familiar as possible with the actual workings of all the Department's programs. The Focus: HOPE Program sounds interesting and I would like to see it when the opportunity arises.

Mr. TRAXLER. For the past few years, the Advisory Council on Maternal, Infant and Fetal Nutrition has been meeting to review

some of the USDA feeding programs, and is required to provide a report to the Congress on its findings. That report is scheduled to come up here in the very near future. What role do you expect this report to play in the development of the Department's policy on programs like CSFP and WIC?

Secretary BLOCK. The 1980 Report of the National Advisory Council on Maternal, Infant and Fetal Nutrition covers a wide range of recommendations pertaining to the operations of the WIC and CSF Programs. The Department will consider these recommendations in conjunction with goals of this Administration as policies for the Supplemental Food Programs, WIC and CSFP, are developed. This report will be forwarded to the Congress soon.

COMMODITY PROCUREMENT

Mr. TRAXLER. One of the real benefits of the way in which our feeding programs have operated over the years has been the fact that they are a chief customer for surplus farm commodities, and also an excellent distribution system for surplus commodities that the Department can donate. CCC-owned milk and cheese, for example, have been used in the School Lunch, School Breakfast, Special Milk, CSFP, Elderly Feeding, and Feeding on Indian Reservations programs. Can you detail for me how some of these commodities have been used in the past few years?

Secretary BLOCK. Butter is used as a spread and in some cooking and baking. It is also used in processing contracts for grilled sandwiches and bulk butter is converted to patties by some States. So far this year we've distributed 77.8 million pounds of butter.

Nonfat Dry Milk has a variety of uses such as in school baking programs, soups and sauces, puddings and homemade ice cream. In processing contracts, States have the nonfat dry milk used for ice cream, yogurt, mozzarella cheese, milk shake mixes that do not substitute for whole milk, pizza shells and cake and bread mixes. To date this year distribution amounts to 31.8 million pounds.

Cheese, both process and natural cheddar, is used in sandwiches, salads, homemade pizza toppings, combined with meat and pasta dishes and used to enhance or reinforce the protein requirement of the lunch. In processing contracts, natural cheddar cheese is especially used as a topping for pizza. Cheese distribution so far this year is 83 million pounds.

Mr. TRAXLER. While there has been some criticism of the dairy price support program, much of the surplus dairy stock has, as I have already pointed out, been purchased for use in feeding programs by USDA, and I suspect by other government agencies for their purposes as well. These purchases mean that there has been some income to the Department for the sale of these items, resulting in either a net gain or a net loss from the purchase and resale of dairy products. While you claim that the dairy price support program would have cost an additional $1.1 billion in fiscal 1982 in the absence of the President's recommendations, can you tell me what the net cost for the dairy program has been for each of the past five years as a result of these sales?

Secretary BLOCK. The $1.1 billion saving in fiscal year 1982 is based on net budget expenditures that include estimated sales of $358 million. Since 1976, sales of dairy products have ranged from

$83 to $369 million. The net cost of the dairy program for each of the past five years is shown in a table we will provide for the record.

[The information follows:]

DAIRY PRODUCTS

COMMODITY CREDIT CORPORATION BUDGETARY EXPENDITURES

[In millions of dollars]

CCC operations	1976	1977	1978	1979	1980
Purchases	115.3	720.8	445.0	246.7	1,262.4
Storage, transportation, and processing	7.9	26.1	38.6	71.8	117.9
Total outlays	123.2	746.9	483.6	318.5	1,380.3
Receipts	−83.1	−277.8	−243.5	−294.7	−396.1
Net expenditures	40.1	469.1	240.1	23.8	1,011.1

Mr. TRAXLER. What can be done to make greater use of CCC commodities in the various USDA feeding programs?

Secretary BLOCK. The Department is reviewing several methods of using CCC commodities in the future. In the past, these commodities were used in a bonus program for butter, cheese and nonfat dry milk, whereby States received these items free and not charged against their entitlement. The use of this method of distribution resulted in startling increases in the amount of food distributed. Four years ago before dairy products were bonused, we distributed 52.4 million pounds of butter for the entire year. In comparison, with four months remaining in this year we have distributed 77.8 million pounds. The increase in the distribution of cheese during this period was from 60.1 million pounds to 83 million pounds while nonfat dry milk distribution increased from 27.6 million pounds to 31.8 million pounds.

Another option is to work with the dairy industry to develop new ways of utilizing these products.

Currently, we provide guidance in the form of recipes and direct communications through workshops. This communication is coordinated through our Washington staff and regional offices to the States. The States, in turn, work with individual school districts to increase the use of these foods.

FAS ABILITY TO PUT FOREIGN BUYERS IN CONTACT WITH U.S. SUPPLIERS

Mr. TRAXLER. Mr. Secretary, many farmers in my District have been the beneficiaries of efforts by the Foreign Agricultural Service and its market development programs. In particular, FAS was largely responsible for helping to arrange for the largest dry bean sale in the history of the American industry to Mexico. Since my District is the largest dry bean producing area in the State of Michigan, my farmers were able to get very substantial contracts, some of which are continuing this year as well. I know that the Administration wants to allow the free enterprise system to work, and I have no quarrel with that goal. However, some other nations do not recognize the free enterprise system, and prefer to trade

through government entities while not understanding why we do not trade in the same way. FAS has been an intermediary which has been able to bring our agricultural producers together with foreign government buyers, while never itself becoming a party to any contract. Do you expect that FAS will retain this ability during your Administration, and can you foresee any expansion in their ability to operate in this way?

Secretary BLOCK. The Foreign Agricultural Service has traditionally worked to facilitate U.S. commodity exports through numerous means. Putting potential importers in direct contact with U.S. suppliers, as was the case for bean sales to Mexico, is but one method used to meet the diverse needs of foreign buyers of U.S. commodities. FAS market development programs are formulated to meet U.S. export objectives, but tailored, to the extent possible, to the needs of our customers. I see a continuation of this flexibility in our marketing approach as beneficial and expect FAS to continue promoting U.S. commodity exports through numerous means. Activities bringing foreign, private or government buyers together with U.S. agricultural producers are consistent with this Administration's free market oriented philosophy.

COOPERATOR TRAVEL

Mr. TRAXLER. The market development program has also allowed for FAS to cost-share travel expenses for agricultural associations that might not have been able otherwise to afford foreign trips so that individual commodities can be promoted overseas. Will this program continue and be expanded?

Secretary BLOCK. Travel is an integral part of the market development effort carried out by cooperators. Although costs of travel are rapidly rising, we will continue to fund this important market development tool to the extent practicable within our budget.

ROLE OF FAS AS A FOREIGN TRADE ADVISOR

Mr. TRAXLER. Exactly what type of role as a foreign trade advisor do you envision for FAS?

Secretary BLOCK. Timely, accurate, global information is increasingly important to the decisions farmers and traders make in planting and marketing crops, and to the course of action taken by the Congress and the Executive in creating farm legislation and policy.

Over the years, FAS has developed a worldwide information network that is second to none, based on reports from its attaches and counselors on conditions in more than 100 countries. We frankly are proud of the FAS information system and we have plans for its continuing improvement.

However, information of itself won't produce exports. Information is necessary, but to sell something, you need to get into a market. If you think of exports as resting on a 3-legged stool, with information as the first leg, market access is the second leg.

FAS works to provide and maintain that access through its International Trade Policy unit. This unit represents and protects U.S. agriculture's interests in dozens of international forums. It identifies barriers to trade, then negotiates to remove or reduce them.

With the passage of the Trade Agreements Act of 1979, it received the added responsibility of monitoring the implementation of the MTN tariff concessions and codes for the conduct of international trade.

Given information and market access, the final requirement in successful exporting—the third leg of the stool—is to develop the market. Here FAS has a range of programs oriented to the needs and resources of producer groups and private exporters.

The primary effort is a continuing, comprehensive program conducted with over 50 nonprofit agricultural trade groups termed Market Development Cooperators. They are organized along commodity lines and stimulate exports of their commodities through technical assistance, trade servicing, trade team exchanges, and direct consumer promotions. This work is supervised by FAS, and funding of the projects is shared.

FAS provides a variety of services to individual firms. We have a computerized Trade Opportunity Referral Service, TORS, which matches foreign buyers with American producers, and a parallel service, CONTACTS, which does the reverse. FAS also sponsors such activities as foreign food-buyer shows and in-store promotions overseas, and provides help in evaluating new product conformance with foreign import regulations.

To broaden the base of market development participation, FAS works with the state departments of agriculture individually and with their four regional export expansion organizations, with which we have cooperator-type contracts for specified activities.

The Agricultural Trade Act of 1978 provided FAS with new export expansion tools. By the end of the year we plan to have 11 Agricultural Trade Offices. These offices provide one-stop service to U.S. exporters and foreign importers overseas.

Within the past 2 years we have integrated the Public Law 480 program and the Commodity Credit Corporation Export Credit Program into our market development structure. The purpose is to coordinate the use of all resources available in the Department to develop and expand foreign markets.

USDA PURCHASE OF VEHICLES

Mr. TRAXLER. Finally, Mr. Secretary, last year Secretary Bergland and I explored an issue which is important to many of the other people I represent: the purchase of foreign vehicles by agencies of the Federal Government. I was advised at that time that the chief foreign vehicle purchased was compact-size trucks because the only source of small trucks were foreign manufacturers. There have been reports that the Defense Department recently acquired small trucks, again from foreign manufacturers. Such small trucks are now available from domestic manufacturers, and I would hope that this point would be noted in your purchases. Are you prepared to commit yourself as a matter of policy to directing the purchase of only domestic vehicles?

Secretary BLOCK. To the best of our knowledge, there are no domestically produced 4 by 2, 4 by 4 compact trucks comparable to those produced by foreign companies. Chevrolet and Ford do market the Luv and Courier which are foreign made and these are being purchased. The lighter, full size trucks made available by

domestic manufacturers this year do not meet many of our off-road uses. However, we do understand that domestic manufacturers will be marketing domestically produced compact trucks in 1982. We will commit our support to the purchase of those vehicles by GSA, who actually does the purchasing for USDA, when such vehicles are made available.

Mr. TRAXLER. Let me conclude by saying that I wish you well in your efforts. The State of Michigan is in a state of depression, and many of the assistance programs that you want to reduce, like food stamps and school lunch, and community assistance programs from FmHA, are even more important to the people I represent because of our economic condition. It is for these reasons that I must be absolutely convinced that your budget proposal does not call for further sacrifices from many in Michigan who have been sacrificing for many months now, and are looking for the Federal government to provide some assistance in recognition of the fact Michigan has contributed its share of support to the Nation. We are still getting back just a little bit more than 50 cents from every dollar sent to the Federal government, and that is sacrifice enough.

I thank you for your patience.

Mr. WHITTEN. Mr. Lewis.

May I say that earlier we welcomed all of you who are new here. This is a working committee.

Mr. LEWIS. Let me reserve the balance of my time.

Mr. WHITTEN. Mr. McHugh.

DAIRY PRICE SUPPORT PROGRAM

Mr. MCHUGH. Let me join with my friends and colleagues in complimenting you on your appointment and welcome you here. The committee members are anxious to work with you constructively on what is a tough job. I recognize you have not yet really had an opportunity to get into the details of your programs, so it may not be possible to answer very specifically. My friend from Michigan has anticipated a number of my concerns.

Let me go back just for a moment, if I may, to the dairy price support programs. In general terms do you anticipate that the Department would be asking for more flexibility in setting the support level? As you know, now you may not set the support level at less than 80 percent of parity.

Trying to speculate as best you can, do you anticipate that the proposal that the administration will ultimately make would seek more flexibility, permitting the Secretary to go down to 75 percent, or is it something else in general terms that you might be thinking of?

Secretary BLOCK. I think it is something like that.

There is no way to discourage milking those cows unless we reduce that level. It is unfortunate but it looks like we have too many people milking too many cows and the industry is getting so efficient. The latest figures I have show that there are really less cows but they are giving more milk. It is better cows with better feed grains and milking them three times a day.

Mr. MCHUGH. How much is that costing us now in terms of the surplus milk we are picking up, over a billion dollars?

Secretary BLOCK. Yes, $1.4 billion, and we have new figures that show it higher than that this year.

Mr. MCHUGH. The only specific proposal we have thus far is to eliminate the April 1 adjustment.

Secretary BLOCK. That is right.

Mr. MCHUGH. When might you anticipate these discussions with the dairy industry concluding, and our receiving some specific proposal?

Secretary BLOCK. We are talking with them now but I'm sure as we develop this farm bill it is going to be coming up. So, we better have it in March.

FOOD STAMPS

Mr. MCHUGH. With respect to food stamps, I have the same concern as my friend from Michigan in terms of administrative costs which might be incurred if the cost of school lunches are deducted for eligibility purposes, and, again, I recognize that all the details will be forthcoming later.

I have a second concern in this area, and it is related to the adequacy of the supplement that is provided by the food stamp program. It is my understanding that we provide assistance with food stamps based on the thrifty food program which provides a subsidy on the average per person per meal of anywhere from 38 to 44 cents.

Is that correct?

Mr. DEWHURST. Yes, sir.

Mr. MCHUGH. Do you have a specific number? I have seen different numbers on that.

Mr. DEWHURST. No, I am sorry, I do not have it. In 1982 it is $45 per person per month.

Mr. MCHUGH. Per month?

Mr. DEWHURST. Yes, sir.

Mr. MCHUGH. It is my impression that many of the people on food stamps are really quite needy, and that in addition to the per meal subsidy being rather low relative to food costs, the gross income of food stamp households is also quite low. The average, I recall, is something around $3,900 a year. I believe that we have always recognized that while the food stamp allotments are very helpful and certainly expensive in terms of the total program cost, they really do not guarantee very much of a diet for those people who are dependent upon food stamps. With respect to the school lunch program specifically, children who are getting the benefit of both the food stamp subsidy at home and the school lunch at school are not being overfed. Indeed, the school lunch program was designed to assure that students in school would get some supplement to their diet at home, a diet which is very modest for food stamp families. If I am correct, the school lunch is not a duplication. It is intended to be a supplement to what is conceded to be a rather minimal dietary standard as measured by the food stamp subsidy.

Is that your understanding, or am I off base?

Secretary BLOCK. I feel it is a duplication, assuming that people on food stamps have the children to take advantage of it. I think eliminating this duplication is a good recommendation providing it can be done without the administrative headaches that you are

suggesting might be the case and I should hope they would not be there.

Mr. McHugh. As you go through the review of that, I hope you will take a close look at it, because as I say, it has been my impression that it is not a duplication, that it is a recognition that children growing up, burning the energy they do, need that extra supplement of a good meal in school over and above what they might get minimally through the food stamp program at home; and if that is the case I would argue that it is not a duplication, that really it is very important in terms of nutritional requirements of children, that they have the benefit of that school lunch as well, and that administrative question is another one that is related to the whole proposal.

FARMERS HOME ADMINISTRATION BUDGET CUTS

Another concern of mine, and I confess it relates to my experience in the Northeast, is with the Farmers Home Administration programs.

These programs have been very important to our region.

In fact, in recent years, there have been many times when the Farmers Home Administration was the only place that low- and lower-middle-income people could get financing for home purchases or rental subsidies, and in terms of rural America, to the extent that the Northeast is a reflection of other parts of the country, this is a very important program, and I note that the administration has proposed some significant cutbacks in a wide variety of programs administered by the Farmers Home.

I wonder if you could give me the benefit of your observations on what this might mean, these cutbacks, and specifically, if you have any reason to think that in areas like the Northeast, but generally in rural America, there will be private funding, funding available from the commercial marketplace for people who want to buy a home, particularly those who are on rather limited incomes. It is my impression that there is no private market out there in many cases for home purchasers, and that if we substantially cut back on the Farmers Home Administration, these people will not have any place to go. I would prefer to see them get their funding in mortgages from the commercial markets. That is the way it is supposed to work, but it has not worked that way, and unless there is some reason to think that the Farmers Home function will be picked up by the private market, the banks, then what we are really doing is eliminating the only vehicle for home purchasing that exists.

Do you have any observations on that at this point?

Secretary Block. I have some general observations.

First of all, in terms of areas that are going to be eliminated or reduced substantially, we are looking at business and industrial loans. I think the experience has not been good with some of these loans and I could cite examples where a lot of money has been lost.

I had one yesterday that we were dealing with involving some $12 million or $14 million out in the West for a packing plant that is going broke. They have filed bankruptcy and now it looks like they will have to take the full bankruptcy route. It is unfortunate, but maybe Farmers Home financed some business and industrial loans that should not have been financed.

It is our idea to keep the support for the operating loan program in Famers Home at a fairly good level because a lot of areas have had droughts and other problems. We need to try and give them a chance to stay on their feet if they can at all.

In terms of real estate loans, there will be some cutbacks there. In terms of home loans, the above-moderate-income housing loans are being cut completely or substantially. I want to help the people that need the help the most. I want to get away from all these big loans, business and industrial, get away from the above-moderate-income loans and focus in on those that really need help.

Mr. McHUGH. I understand there have been some problems with the business and industry loans, and there are some notorious examples I know where the loans have been made, rather large amounts of money and guarantees, and that undoubtedly needs some tightening. I agree with that. I have seen some examples of where it has been very helpful to preserving jobs in rural communities. Administration should be tightened, but my primary concern is with the real estate market, the homeownership area, where there just does not seem to be any other place for people to get help.

Secretary BLOCK. We do not intend to cut the low-income housing programs in Farmers Home. We do have some serious administrative problems in the Agency. Of all of the agencies in the Department of Agriculture, and I cast no adverse reflection on the good employees of Farmers Home Administration, Farmers Home's programs have expanded so fast in the last few years that they really have not been able to handle them. We are swamped. I get calls every day from throughout the country. Our administration is trying to move people over to Farmers Home to help them process emergency loans. It is a serious problem with us.

Mr. McHUGH. We have that same problem. People who work out there and do a good job are really swamped, as you say; but to me that reflects first and foremost a significant demand for what Farmers Home has been providing, and correspondingly an inability on the part of the nongovernmental sources to provide that essential assistance, and my concern, as you can tell, is that if we cut back on the funding that is available, we might enable people to catch up, because there will be less money to hand out, but we will also be even falling farther behind in meeting a legitimate demand which presently exists for those kinds of real estate loans, so I urge you to look carefully at that.

The same thing can be said for community facilities assistance. Again in the Northeast, where my experience is, we have many of our water and sewer treatment facilities which are old and in some cases nonexistent, and Farmers Home has been very helpful in these areas. Costs are far beyond what local communities can afford, and this is also targeted for about a 50-percent cutback in authority.

If that is true, I would also be very concerned about what that might mean to local communities in these essential areas.

GOVERNMENT-HELD GRAIN RESERVES

Now I'd like to turn to another matter, if I may. In the last Congress we passed a bill establishing a Government-held reserve, a wheat reserve specifically which would serve as a backup to the Public Law 480 program. Farmers are always very concerned about the Government holding a reserve for fear it will be dumped on the private marketplace. Has that reserve been established and is it stocked and if so, is it your intent to continue to maintain that reserve?

Secretary BLOCK. As far as I know, it is stocked, but I do not have any plans on what to do with it. I do not look very favorably upon Government-held grain reserves.

Mr. MCHUGH. Why not?

Secretary BLOCK. Generally they hang as a blanket over the market and tend to depress markets.

I really think that grain reserves are more for other countries than they are for our country. We are going to raise enough for ourselves anyway and much more. I think other countries should buy this grain from us and store it over there in grain bins to satisfy their needs and I often wonder why they do not. I think I would like to encourage them to do just that, I would like for them to buy it and take it off of our shores and put it in their respective countries because whenever the grain is here in the United States it provides some pressure on our markets. We have plenty of grain.

Mr. MCHUGH. When you have a chance to look at that you will see that the law specifically precludes that reserve from being used in our domestic market, and it is designed expressly to meet emergency situations. For example, in East Africa right now, the problems with starvation and people dying by the thousands really is a serious problem, and if we reach a point as we have in the past where the Public Law 480 program is inadequate to meet that kind of emergency, and these are people who cannot afford to buy our grain on the open market, that this very modest reserve which cannot be used domestically in any case would be a backup to that type of emergency situation.

I think, given those limited purposes, that it is a very valuable kind of program, and I certainly agree that other countries should be participating in trying to meet those kinds of emergencies, not just relying on the United States, so again I would urge you to maintain that reserve, as modest as it is, and particularly since it really does not represent an overhang or a threat to our domestic prices.

PUBLIC LAW 480

Mr. MCHUGH. Mr. Secretary, it is my understanding that the Administration is proposing to reduce the fiscal year 1982 budget request submitted by the Carter administration for Public Law 480 by $100 million. Is that correct?

Secretary BLOCK. Yes, that is correct.

Mr. MCHUGH. Could you tell us whether any decision has been made as to how this reduction will be allocated between Title I and Title II?

Secretary BLOCK. The agencies involved in administering the Public Law 480 programs, primarily the Departments of Agriculture, State, and AID, are still considering the matter of how best to allocate the reduction between the Title I/III and Title II programs. Our objective is to insure the budget reduction will cause the least disruption possible to the international food assistance commitments and programs of the U.S. Government.

Mr. MCHUGH. Could you tell the subcommittee what effect a $100 million reduction would have in Title I? Title II? What programs or activities would have to be foregone?

Secretary BLOCK. Our present estimate is that a reduction of $100 million in the combined Public Law 480 budget will lower food assistance shipments by 300,000 to 500,000 metric tons during fiscal year 1982. The exact tonnage loss will be determined once it has been decided how the reduction will be split between the Title I/III and Title II programs. However, most of the program reduction and tonnage loss will occur in the Title I/III program, where it will probably result in a smaller unallocated reserve. Decreasing the size of the reserve will reduce our flexibility to meet additional food assistance needs that might arise during the fiscal year, and to restore tonnage to selected country programs that might be lost through price increases. With respect to the Title II program, the Department of Agriculture and other agencies are committed to meeting the 1.7 million metric ton legislative minimum. Any budget reduction under Title II will be handled by reprograming commodities from the more expensive, processed foods to less expensive types. The degree to which this commodity reprograming can be done is still being reviewed.

EGYPT

Mr. MCHUGH. Mr. Secretary, one of the most basic objectives of our Title I program is market development. Yet, almost 40 percent of Title I is allocated to Egypt, and for political reasons that I think we all understand. Can you tell us whether and to what extent this unusually large allocation has affected commercial sales to Egypt?

Secretary BLOCK. Mr. Chairman, Egypt in 1980 was a leading market in the Middle East for a number of agricultural products, including consumer ready food items. The favorable outlook for Egypt's economic sector combined with a rapid population growth indicate a strong market for U.S. agricultural exports in the 1980's.

The U.S. share of the Egyptian agricultural market in 1980 is estimated at approximately one-third. Final data are not available, but it is anticipated that Egypt remained within the top 15 markets in the world for U.S. agricultural exports. It is also expected to remain the leading world market for U.S. wheat flour, tallow and cottonseed oil.

Both the quantity and value of U.S. agricultural exports to Egypt in 1980 increased. The value was 30 percent greater than the year before, while the quantity was up 24 percent. Higher prices for wheat, corn, vegetable oils and tobacco largely were responsible for the greater increase in value. Larger imports of wheat, corn, cottonseed oil, poultry meat and tallow accounted for most of the increase in both quantity and value.

The largest item in the $1.1 billion U.S. economic assistance program to Egypt in 1980 was the financing of wheat and flour under Public Law 480. Added to the Public Law 480 program which amounted to $299.5 million in fiscal year 1980 for Titles I and III, was a commitment of $123.6 million for agricultural imports under the Commodity Import Program, CIP, administered by the U.S. Agency for International Development. These funds were used to purchase tallow, corn, frozen chickens, lentils and tobacco. Thus, about 60 percent of the U.S. agricultural exports to Egypt in fiscal year 1980 were sold through import credit programs. Title II of Public Law 480, a grant program, amounted to $19 million and provided primarily fortified food products.

Mr. McHugh. Mr. Secretary, is such a large Public Law 480 Title I program creating disincentives both for Egyptian and American farmers?

Secretary Block. Mr. Chairman, the major obstacles to Egyptian agricultural development are problems within Egypt itself. In contrast to the growing population, the food production base has not changed in 25 years. Production is still limited to 3 percent of the total land area. The imbalance between domestic production and consumption will continue to be a fundamental feature of Egypt's economy for years to come. The U.S. Embassy does not believe the import of Public Law 480 wheat will have a substantial disincentive effect on Egypt's domestic production. Every acre of arable land is in full production, much of it double and triple cropped, and land reclamation to increase the agricultural base is active. Because agricultural exports are a major source of export earnings and the population growth rate is close to 3 percent, Egypt can be expected to continue efforts to maximize agricultural production regardless of any level of food aid likely to be available in the foreseeable future.

The American farmer has long been aware of the U.S. commitment to make food available to the less developed countries on concessional terms. Public Law 480 has served the farmer in moving surplus commodities, in introducing U.S. farm products to new and potential markets, and has provided an increment of demand that has made it possible for the American farmer to gain a measure of satisfaction by participating in developmental and humanitarian objectives of U.S. foreign policies.

Mr. McHugh. Mr. Secretary, what distortions does this program have on the Egyptian economy, and do you think that both the Egyptian Government and American farmers would be better served if the program was scaled back and direct cash assistance (perhaps through the Economic Support Fund) was substituted in its place?

Secretary Block. Mr. Chairman, the Egyptian Government's policy continues to be directed toward providing the low income population with basic food commodities at low prices. With the original objective being a greater equity in the distribution of income and consumption capabilities, the subsidies have now become a major component of current government expenditures. Food subsidization currently amounts to 27.5 percent of total expenditures.

The revised development plan for 1980–84 redirects priorities in an attempt to focus on reallocation of investment dollars, re-evaluation of the subsidy system, and more effective utilization of the land base.

The use of Public Law 480 for financing subsidy measures is a political decision which the U.S. does not consider to be the most constructive use of the development potential of this resource. We would favor using these resources in improving and expanding production technology, increasing the efficiency of the marketing channels, generally supporting initiatives for food security and self reliance. The budgetary support desired by Egypt and generally endorsed by the U.S. Government, ought to be supplied from other resources. Such an adjustment would make Public Law 480 more viable in Egypt and more equitable to the many other countries in need of help through this food aid facility.

PUBLIC LAW 480

Mr. McHugh. Mr. Secretary, it is my understanding that the Office of Management and Budget originally had under consideration a proposal to eliminate Titles I and III of the Public Law 480 program. Do you know whether such a proposal is still under consideration, and could you tell us whether you believe that it would be desirable to eliminate these programs?

Secretary Block. The OMB proposal to eliminate by fiscal year 1984 the Title I and III program is no longer being considered. The Department of Agriculture supports the continuation of the program and will be forwarding to Congress with other material on the farm bill, a recommendation that the program be reauthorized for an additional four years.

Mr. McHugh. It is also my understanding that the OMB proposal referred to Public Law 480 Title I "as a relatively ineffective form of foreign aid, which has been continued because of its popularity with domestic farm interests," and that "the need for Title I as a surplus disposal and market development device is marginal." Would you care to tell the committee whether you share these views?

Secretary Block. The Department of Agriculture believes that the Title I/III program is an effective form of development assistance. One of its advantages is that it is the quickest disbursing development aid available. Once the commodities are imported by the recipient country, they can be sold immediately on the local market and the local currencies applied to development programs. This can occur within two months of the signing of an agreement. In addition, the Title I/III program offers significant balance of payments relief, allowing scarce foreign exchange to be allocated for long-term investments. The Title III, Food For Development, program is, of course, designed to serve exclusively as an aid for development. The Title I/III program is supported by a wide range of interests and not simply by domestic agricultural groups, although agricultural groups remain highly supportive of the program. The widespread interest in the OMB proposal is evidence of the continued support for the program from many different groups. The Title I/III program has not had a significant role in surplus disposal of agricultural commodities since the 1960's, and surplus

disposal is no longer a legislated objective of the program. The Department of Agriculture does, however, believe that the Title I/III program can be an effective market development device. Recognizing that the future growth of markets for U.S. agricultural commodities will occur in developing countries, this program offers the Department one of its best mechanisms to enter and develop these markets. In addition, by generating local currencies and providing balance of payments relief and thereby contributing to economic development within recipient countries, this program will assist in the growth in demand for U.S. agricultural commodities which is closely tied to increase in per capita incomes in foreign markets.

PUBLIC LAW 480 PROGRAMING TO HAITI

Mr. McHUGH. Mr. Secretary, this administration has pledged to eliminate corruption, waste, and inefficiency in Federal programs, a goal that all of us on this Subcommittee share. As you may know, there have been grave concerns raised about our Public Law 480 assistance to the government of Haiti, and many observers believe that the program in Haiti is a prime example of one where waste and fraud abound. Has the Department carried out any investigations of the Public Law 480 program in Haiti in recent months? If so, could you outline the conclusions of the investigation? If not, do you have any plans to investigate the Haitian program?

Secretary BLOCK. We have not carried out any recent investigations of the Public Law 480 program. In that regard, I might note that AID is the lead agency for Title II donations programs, under which most of the alleged abuses have occurred, and accordingly investigates problems in the field which occur under that authority of the program. On the Title I concessional sales programs, for which the Department of Agriculture is the lead agency, we have had no reason to develop any investigation. However, we would certainly be prepared to conduct an investigation should it appear necessary.

Mr. McHUGH. Thank you, Mr. Block.

Secretary BLOCK. Thank you.

Mr. WHITTEN. Turning now to the gentlelady from Nebraska. When we learned she was going to be on this committee, we consented to let our friend Mark Andrews go to the Senate. We are glad to have you here.

AGRICULTURAL INDUSTRY IN THE EIGHTIES

Mrs. SMITH. Well, as you know, I am delighted to be here, Mr. Chairman, and I appreciate having you here, Mr. Secretary, and look forward to working with you very closely, and my long-time friend, Mr. Assistant Secretary, Dick Lyng, it is good to have you here. I want to tell you, Mr. Chairman and Mr. Secretary, that Ken Robinson called me just before the meeting. He has been in a car accident, and he is having some physical trouble, not too serious; and he wanted me to convey his apologies to all of you for not being here.

I want to particularly commend you for what you said, Mr. Secretary, about the FmHA program.

There are many weaknesses in the Business and Industry part of this program and in the loaning of money for houses of higher-income people. I think you are exactly right in wanting to preserve this for the modest- and low-income agricultural people. I am also pleased to note that you do not look very kindly on Government-held grain reserves. I sure do not look kindly on them. I lived for 20 years when we had a Government-held grain reserve, and every time the price of wheat went up 10 cents the Government released grain on the market to push prices down, and I will tell you folks in agricultural areas, there is much concern over government-held grain reserves.

It looks like in the 1980's the demand for America's raw farm products abroad is going to increase. We have had a problem of oversupply, and now we are closing the gap between supply and demand very quickly. What do you have in mind to mitigate the problem of price fluctuations that can easily create a great difficulty for agriculture in this kind of new setting?

Secretary BLOCK. Well, I do not really intend to create any new tools to mitigate the price fluctuations. I think the fact that we will have a farmer-held grain reserve that has a call price does provide some mitigation.

The fact that we will have a loan program provides mitigation on the lower side of it but I want to have a fair amount of range for this market to work in between the two. If you have the range for it to work, the market in itself is the best mechanism for telling farmers which crops to produce which year. The market will be telling them generally how much to produce, too. I hope that if we do have the kind of strength, and the kind of export sales and the demand for the farm products that the farm products can fluctuate on the high side of this wide range. If they do, it will mean a greater income for agriculture and an opportunity for us to modernize our production plant, which we have to do if we are going to meet the demands that may be placed on this agricultural industry during the decade of the 1980's.

I think the demands are going to be substantial but I have no doubt in my mind that agriculture can meet these demands. Frankly, I do not think we have really had incentive in the last 3 or 4 years to gear up production and to develop and take advantage of some of the new techniques and some of the new technologies. By doing so, I think we can do a great deal more than we are doing now but we do need price incentive.

Mrs. SMITH. I like that answer. Do you have in mind some modification of the current grain reserve so we will not have a situation where we have a billion bushels of grain called at one time?

Secretary BLOCK. I do not have any specific plans on that, but I understand exactly what you are saying. When you have a lot called it is a lot on the market. I do want to have the call price higher than it was. So, this will enable the market to fluctuate on the high side and allow the market system to work more effectively, this will allow the price to ration demand a little bit.

BILATERAL GRAIN AGREEMENTS

Mrs. SMITH. There has been some disagreement among farm organizations as to whether the handling of the Chinese grain agreement was in the best interest of agriculture, or whether it would have been better if Government had not been included. Your comment about that?

Secretary BLOCK. I know that I have been somewhat critical of bilateral grain agreements in general but I would say we would probably negotiate another one with the Soviet Union if the opportunity were to arise and the conditions were right. With the People's Republic of China—P.R.C.—maybe it is necessary to have it, and maybe it is not. I do not want to proliferate a large number of bilateral grain agreements. We have an agreement with Mexico and they are a close neighbor. Maybe we need something there. I have talked to the Ambassador. He thinks we should review it. Certainly, we intend to abide by the agreements that are in place today, the one with the P.R.C. and the one with Mexico. But when it comes time to review, we will carefully look at it and decide if it is in our best interest.

RUSSIAN GRAIN EMBARGO

Mrs. SMITH. Thank you. Mr. Whitten and I were over at the White House the other day and we were discussing the possible lifting of the grain embargo.

I understand what President Reagan had in mind when he said he did not want to lift it without some quid pro quo and I know you are chairman of the Food Council and I hope you will convey the message to President Reagan that in my judgment he ought to lift that embargo forthwith.

This was an embargo put on by a previous Administration. It seems to me if he would lift the embargo and say at the same time if we have any acts of aggression on the part of Russia we will impose a new embargo by this Administration, an across-the-board embargo, that will include not only grain but phospherous, fertilizers, spare parts, trucks, tractors, and technology.

I think that would be a much tougher message to Russia than carrying on the present embargo which has outlived its usefulness if it ever had any.

I know Senator Dole was urging that the Food Council be given the authority to work toward the lifting of this embargo and I hope you will keep this message in mind and pass it on to the folks you work with.

Thank you very much. We are delighted to have you as our Secretary of Agriculture and delighted to have you, Mr. Lyng.

Secretary BLOCK. May I say I will carry that message forward. Also, I compliment you on the forceful message that you provided to the President and the Vice President during our meeting the other day with them.

Mrs. SMITH. Thank you.

Mr. WHITTEN. I yield to my colleague from Kentucky who has worked on this committee for many, many years.

PROBLEMS CONFRONTING AGRICULTURE TODAY

Mr. NATCHER. Mr. Secretary, we are delighted to have you before our committee today. I want to wish you the best of everything in your new assignment.

My chairman has pointed out that we have served on this committee a long time. I started, Mr. Secretary, at the time when Ezra Taft Benson was the Secretary. We have come down through the years with a number of Secretaries and each time, regardless of the party that occupied the White House, Mr. Secretary, my chairman and I have always said to him, we want you to stand up for the American farmer.

I believe that every Secretary, regardless of what takes place around the Cabinet table at all times, should stand up for the farmer. I believe you will.

Mr. Secretary, as you and I know, we have a number of major problems in agriculture, matters pertaining to the farm debt, real estate and non-real estate debt, $180.5 billion concerned and matters pertaining to cost of production, energy.

If I ask you to name one of the major matters confronting agriculture today, what would you say that would be?

Secretary BLOCK. There is a whole host of problems but one of them has to be the cost of money to do business. Last spring with falling grain prices and falling farm commodity prices it was devastating to borrow money at the kind of interest rates we were borrowing at. That is part of this inflation that is eating us up in this country.

I guess we just have to get control of inflation. It forces the cost of money and of doing business up and I think that is the root of our problems, among others.

Mr. NATCHER. As you and I know, recently the Congress increased the debt ceiling and it is now up to about $985 billion. The farm debt, real estate and non-real estate, is $180.5 billion.

Isn't this a rather serious matter, Mr. Secretary, farm debt?

Secretary BLOCK. It is a very serious matter. Frankly, in recent years it has been pointed out to me that agriculture is really healthy and we are doing fine because the real estate values have gone up. I have never bought this. I have sent letters and I have counselled people in the highest of offices that we can't live off of net worth.

We have to have cash flow. When you don't have a positive cash flow you borrow against your net worth. That is what has been happening in agriculture in recent years. We have no order against freeing net worth and so we keep incurring greater debt but we are really not getting very far.

I know what you are saying and I hope we can make some progress here.

TOBACCO RESEARCH

Mr. NATCHER. As my chairman pointed out to you, Mr. Secretary, I am interested in tobacco. In the State of Kentucky, as you know, we have 120 counties. We produce tobacco in 118 counties. I serve as chairman of a subcommittee that makes the recommendations for the Departments of Education, Health and Human Serv-

ices and Labor. In that bill we have 36 percent of the entire budget. We have about $275 billion, Mr. Secretary.

In your bill that you are presenting to the subcommittee at this time and the bill we will have before the committee, you have about $5 million in tobacco research. In the subcommittee I am chairman of we have $1.9 billion for cancer research.

We have 12 National Institutes of Health, one of which is the Institute for Cancer Research. We have $1 billion in that one.

I have served on that subcommittee for a great many years and now I am chairman of it and I have never made a request of that subcommittee to reduce one dime in any program pertaining to cancer research or anything pertaining to smoking and health.

We have in that bill $51.9 million for smoking and health. Each year they come in for increases, and my chairman will tell you I make the recommendation to the subcommittee that we grant the increase.

I know that people in this country are concerned about cancer.

We have in this bill, as I say, about $5 million for research for the entire tobacco program. You know if tobacco is paying into the Federal Treasury and the State and local communities about $7.2 billion, we don't hesitate to take that money. We accept it every year.

This is not your budget, this is what we call the Carter budget, but you will be presenting the next one.

In this bill we have matters pertaining to inspection and grading. I believe that your budget officer will tell you that a change in the law has been proposed. They come in and say, we want to cut the budget just a little bit so they touch here and touch there a little over $1 million.

Since tobacco has been produced and since it has been a program where it is controlled, it has lost less than $200 million since the program started years ago.

You have a small amount for crop production research which pertains somewhat to nicotine and tar. Last year we had to put back in $1,400,000. The year before we had to put in extra money. This time if it is left out, I don't mind telling you I am going to make the request of this subcommittee to put it back again. I say that to you frankly.

You know our subcommittee room for HEW is right down the hall. We want you to come visit us. In here we talk about dollars. Down there there are billions. We have $3 billion 900 million directly for research in NIH. We never cut a dollar when it pertains to cancer and research along that line.

So we come in here and we see a bill where there is less than $5 million and you propose a reduction.

I have never been able to understand it, Mr. Secretary. That is in the Carter budget. That is not your budget.

So I hope after I have made this little speech, when you prepare your budget you will just keep these matters in mind.

So, Mr. Secretary, when you come in here, please keep those things in mind. We have a lot of matters that are of great concern to the American farmer and this is a matter that is of concern to 16 States in the United States. We will be discussing it with the proper agency when they come in.

Mr. Secretary, we have extension and a number of other matters that are of great concern to our committee.

Mr. WHITTEN. Mr. Hightower.

Mr. HIGHTOWER. Thank you, Mr. Chairman.

Mr. Secretary, you have heard from the chairman and you have heard from the dean of the Committee, even though he doesn't occupy a dean's chair.

I have been a little disappointed that we do not get the full treatment. I think that your initial appearance before the Committee is a time for you to understand us and for us to understand you. I anticipate we will be seeing you again before the Committee. I know there are some other things that you have not been asked.

I am anxious to be here when the chairman asks you about the plans for the yearbook for 1981. I just want you to understand there are other things that will be covered at another time.

You have also heard from Mr. Natcher on tobacco which is always interesting. It is good, I have heard Mr. Perkins, who is not a member of this committee, but he is eloquent, and we have several that are eloquent on this subject and I know that you will bear that in mind.

When I punch my good friend to my left here in the ribs he says tobacco. When he punches me I say cotton, wheat and cattle because those are my particular interests. I represent a very large area in northwest Texas that is larger than about eight of the lesser States. Naturally we have a lot of rural people.

Our concerns are rural in production of food and fiber. We are very much concerned about what lies immediately ahead.

We have been going through a tough time. You are a farmer; you have a record of being a producer. You understand the problems producers have been living through. We appreciate that and you are bringing to that office down there all of that experience and we wish you well as you deal with OMB and others who are going to be your constant conversationalists about these problems.

I am very much concerned about what lies ahead immediately because farmers by nature, at least cotton farmers, are always living for next year and living on hope. Some of our wheat people and cotton people have gone through some very difficult times. We are in a drought.

That brings me right to the point of disaster loans. From what we understand, the recommendations are going to be about cutting loans.

FARMERS HOME'S INTEREST RATES

I listened very carefully to the President last night. Unless I missed it, the only time he referred to agriculture was when he talked about loans and interest rates. We are concerned about interest rates.

Of course, we have seen the interest rates move up but specifically on that point what do you think the recommendations are going to be?

Secretary BLOCK. You are talking about the Farmers Home Loan programs?

Mr. HIGHTOWER. Yes.

Secretary BLOCK. I don't look for us to be drastically cutting the farm operating loan program.

Mr. HIGHTOWER. I am talking about interest.

Secretary BLOCK. The interest—there can be some changes but—I don't have the details right here. I think it would be very much the same as we looked at before.

Mr. HIGHTOWER. Did I misunderstand that they are going to cut loans about 12 percent?

Mr. DEWHURST. The level of operating loans in President Reagan's new budget is about $1.4 billion. That is a reduction from the $1.5 billion that was in the previous budget but it is an increase over the 1981 level. So, it is a 7 percent reduction from what was in the previous budget, but it is higher than any other operating loan level.

FEDERAL CROP INSURANCE PROGRAM

Mr. HIGHTOWER. What role is the crop insurance program going to play? Are you anticipating a greater role for crop insurance?

Secretary BLOCK. The general crop insurance program this year and in 1982 will play a greater role in taking over all the disaster support programs in agriculture.

Mr. HIGHTOWER. I didn't understand that was the law as of now. Is it anticipated that will be the law?

Secretary BLOCK. I think that is the law now.

Mr. HIGHTOWER. That it will be completely taken over?

Secretary BLOCK. From 1982 onward, the disaster loan programs will be phased out and Federal crop insurance will provide the necessary support for disaster assistance in agriculture.

Mr. HIGHTOWER. So at that point you are anticipating phasing out all disaster?

Secretary BLOCK. Yes. I might say, in that regard, that the appropriations for the Federal crop insurance program are only enough to carry us through half of this fiscal year and we will be needing supplemental appropriations to carry the Federal crop insurance program through the last half of the year.

AGRICULTURAL RESEARCH

Mr. HIGHTOWER. Mr. Natcher referred to tobacco research. What is going to be your feeling about agriculture research in general? Are we going to see an increase? Are we going to be cutting all agriculture research programs?

Secretary BLOCK. In general, I support expanding agricultural research because I think it has served not only the farm community but also the consumers of this country. It really pays dividends, in my opinion.

Mr. HIGHTOWER. I don't think there is any question about it and I am delighted to hear you say that because that is one of the best places we can make an investment where we really are using tax money for investment in the future.

As we hear the talks of cutting in all the programs, I have been awfully anxious to know what was in store for agriculture research.

Secretary BLOCK. I will be trying to save that one. I don't have that done yet but that is my position and my opinion.

Mr. HIGHTOWER. Thank you very much, Mr. Secretary. We welcome you again and we will be looking forward to working with you.

Mr. WHITTEN. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Secretary Block, I am a brand-new member of this subcommittee so I am in kind of a learning process.

I note in your biography, among other things, you are a fellow who runs in the Boston marathon. Anybody who runs 26 miles plus, somewhere between 7 and 8 eight minute miles, has to be reasonably quick.

Secretary BLOCK. Or has to be crazy.

RURAL ELECTRIFICATION ADMINISTRATION LOANS

Mr. LEWIS. From our chairman and Mr. Natcher, I think you can say there is a good deal of expertise and style here.

One of the things about this Committee that impresses me, agriculture seldom falls along party lines. I have a feeling that your boss and my boss are going to be looking for help on both sides of the aisle and there is a lot to be learned in that connection right here.

I have just a couple of questions and concerns. You have expressed an interest and anticipation of expanded export markets and talked about the impact that has on our balance of trade.

I am very much interested in that. Outside of asking you for some thoughts or feelings you might have, I would look forward to another time when we could go into this in some detail about your programs and ideas as to how we can maximize a marketplace that goes well beyond our borders.

I think this is a critical item and should be of great concern to this committee.

Maybe you could help me with your comments regarding REA with a specific discussion of funding from REA in the guaranteed loan category. Unless I am mistaken, I think there is a separation that can be made between the movement away from funding directly from REA versus having loan guarantees available.

Do you separate the two?

Secretary BLOCK. In the guaranteed loan area we just expect to shift from the private sector.

Mr. LEWIS. But continuing the guarantee?

Secretary BLOCK. Yes.

Mr. LEWIS. I think it is very important that the Administration get the message that people who are concerned about REA are not hearing that, and I have the feeling that it may be because the door has been closed in terms of personal communication.

I believe if you sit down with those people, those who are interested directly, maybe some of the tension that seems to be out there may be relieved a bit.

Secretary BLOCK. That is a good point. I appreciate that suggestion. They haven't contacted us.

FEEDING PROGRAMS

Mr. LEWIS. There has been a good deal of discussion here of the apparent conflict between child nutrition programs and food stamps and some expression of concern by my colleagues of where we are going in that connection.

One concern centered upon the administrative burden that is a part of the child nutrition programs. If I am not mistaken we already have a process for measuring those programs—who gets what, who is eligible for what.

The administrative requirements are already there, isn't that correct?

Secretary BLOCK. If I understand you right, there have to be some changes in the administrative process to get it down but I don't see that as an overriding problem.

Mr. LEWIS. My impression is the workload is already there in administering that program.

The one thing I want to ask about specifically in that connection is that on page 6 of your testimony—I am not totally convinced that there is automatically duplication of services available between needy children who receive lunches and needy families with those children who receive food stamps.

An illustration of that—and it is a question that I have for dialogue here—you say we are proposing to eliminate some in the child care and summer feeding programs.

I don't really know what that means in terms of dollars or in terms of kids but my impression from my own exposure is in child care programs there is a very high percentage of impacted families where there is a great deal of need in terms of this kind of assistance.

I would like to evaluate it carefully because it is simple to say there is duplication. It is another thing to get down to worrying about those people truly in need.

Secretary BLOCK. Thank you very much.

Mr. LEWIS. Mr. Chairman, I appreciate the time for the question.

Mr. WHITTEN. We are certainly glad to have you on the committee and we are also glad to have our colleague from Hawaii, Mr. Akaka.

SUGAR PRODUCTION

Mr. AKAKA. Thank you very much.

Mr. Secretary, I, too, welcome you here. It is good to hear what the new administration has in mind.

When we think of how important agriculture is not only to our country but to the world and the future of the world, we recognize how important it is that we hear your views. I hope we can all work together to try to legislate programs that can provide adequate food supplies, reasonable prices for the consumers, and a fair return for the farmers.

Of course, we all agree wholeheartedly with this concept. I hope that we can, together, come close to achieving this.

Personally I am worried. When I think of the future, the growing population, not only in our country but in third world countries, I worry about adequate supplies.

I hope that our country can continue to support not only our own country but other countries of the world.

I worry about reasonable prices to consumers, and the instability of prices.

I also worry about the fair return to the farmer. You can see that we have a tough job ahead.

As the chairman indicated, I am from Hawaii. I just returned yesterday and I brought with me the weather from Hawaii.

Secretary BLOCK. Thank you.

Mr. AKAKA. I hope we can sustain it as long as possible. Hawaii is a beautiful place where agriculture is very strong. But we also have problems as do farmers in the rest of the country.

Today I provided some macadamia nuts for the members so that they will have a taste of one of the products of Hawaii. Another product there is sugar. We are very concerned about what is happening to sugar. I know other states share in this concern.

Mr. Secretary, domestic sugar producers and consumers welcomed the signing and implementation of the ISA and it is hoped that it will provide some relief from the price fluctuations of earlier years and lead to greater stability.

Since ISA was negotiated and signed, the original price range has become inadequate. The price range has increased by only one cent, and the range is now, as I understand it, 13 to 23 cents per pound. This, of course, is inadequate and is a great source causing problems with our sugar producers. Even the price range the Department of Agriculture has recommended is better than this.

We are at a point where we are worried and feel that the future could be devastating. We certainly hope for a better future for sugar.

I have some questions I would like to ask about sugar. I want to ask you your feeling about ISA and the status of sugar today.

Secretary BLOCK. I don't have the answers on sugar. As I mentioned earlier, I need to learn more about sugar. The fact that you are asking me means I am going to have to find out so we will work on those questions if you submit them.

Mr. AKAKA. I am glad I have this opportunity to call your attention to sugar. I have some other questions here.

I would like to ask whether you know what the effect will be of high fructose corn syrup, on the domestic sweetener market in the next ten years?

Secretary BLOCK. My first response on sugar is I like sugar and I eat a lot of jelly beans.

I don't have any specifics on the kind of program that I am interested in. I need to look at it and study it more.

As far as the impact that the sugar industry may see from high fructose sweeteners, I think they are part of the reality. I think they are going to continue to put some pressure on the sugar industry to some extent but it seems what you mention is true, the sugar industry has been up and down, the price gets low and then very high.

It makes it difficult to plan for the producers and difficult for the consumer to know where they are on sugar, too.

ALCOHOL FUEL PRODUCTION

Mr. AKAKA. I also would like to serve notice that since the farm bill will be up in this Congress and since sugar was added to one of the subcommittees in the Agriculture Committee we will be working to place sugar in that bill in careful language. We look forward to working with you on that.

I became very concerned while listening to the President's speech. In it he mentioned terminating alcohol fuels. Hawaii is in the program and also worried about whether, in fact, private efforts will be able to finance these developments.

I want to tell you when we launched OTEC—Ocean Terminal Energy Conversion—some of the Hawaii companies did not ask for federal assistance. They have completed a first phase and have decided to ask the Federal Government for assistance.

I mention that only to tell you that the private sector is having problems, and I fear that if assistance is terminated the private sector will just give up development. We know that we will have to develop alternate energy for our country's future.

Secretary BLOCK. Would you want me to respond on the alcohol fuels?

Mr. AKAKA. Yes, will you please, Mr. Secretary?

Secretary BLOCK. All right. I am probably as strong a promoter of alcohol fuels as anyone in this room today. We promoted them very strongly in Illinois. I think that they offer, at least at a minimum, a short-term assistance to us in replacing some of our petroleum needs.

How long a term remains to be seen but certainly in the next 10 or 20 years they can help to take up some of the slack. With the right kind of technology and advances, they may do even more in the unforeseeable future. It provides a market for foreign products.

The reason for the termination of the guaranteed loans and the loans through the Department of Agriculture and the Department of Energy is that the Administration believes—and I concur—that there is substantial subsidy in terms of the gas tax exemption. It amounts to some $4.3 billion between 1981 and 1986. It adds up to about $18 a barrel, and with the deregulation of oil, it probably will go up a little bit unless there is a lot of supply. Alcohol fuels, I think, can compete with new technology coming up all the time.

I have recently read about some of these new technologies—ways of utilizing wasted energy. As an example, wasted energy from power plants is being put right into the alcohol fuels plant to make the conversion. And then the carbon dioxide that comes off the alcohol fuels production process is used for greenhouses and things like that.

I think it has a great future. I certainly would be the last one to see the future damaged for it.

FOOD STAMP PROGRAM

Mr. AKAKA. Mr. Secretary, just to comment on the Food Stamp program, I know that you agree with the President that we need to size down spending and size down government and he has chosen several ways of doing it.

One was to trim the Food Stamp program and specifically by placing a cut-off at 130 percent of the poverty line. He contends, as do you, that this will continue to take care of the truly needy.

The concern that I share with my colleague, Congressman Lewis, is that we not cut so deeply that it will cause other problems.

I look upon this as a situation of balance. We shouldn't legislate false economy, where it causes more problems and will cost more money through other agencies to take care of our people and our problems.

I commend you for your offer to strengthen cooperation here and I personally want to work closely with you and your Administration and my colleagues.

TROPICAL AND SUBTROPICAL AGRICULTURAL RESEARCH (SECTION 406, PUBLIC LAW 480)

Secretary Block, I was happy to hear you tell Chairman Whitten of your support for agricultural research. I believe that this money should be maintained, and you can count on my support in this regard. Research dollars are an investment in the future, and are dollars well spent.

Through the Public Law 480 program, money is provided under Section 406 for tropical food and agriculture research. In fiscal year 1981, the amount was $2.6 million. Through this research, a significant contribution is made to world nutrition, particularly in third-world countries. At a time when the population of lesser developed countries in tropical areas continues to increase, this research is essential.

Section 406 tropical agriculture money is one of the most effective programs in Hawaii, and it enjoys both popular and editorial support. Mr. Secretary, I would appreciate your expanding on your earlier comment on research. Specifically, I would like your views on the tropical agriculture research program.

Secretary BLOCK. The Department has established commitments to its cooperators, AID, and international institutions to support and strengthen programs for tropical and subtropical research and technology. The program was not initially funded until fiscal year 1974 when Congress added $500,000 for tropical and subtropical research under Section 406 to the USDA appropriation. Total SEA program funds for fiscal year 1981 are $2,865,000, which enabled the Department to begin planning a stronger research and coordination base. Florida, Hawaii, Puerto Rico, and the Virgin Islands are the primary participants in tropical and subtropical agricultural research programs. For fiscal year 1982, the Department is requesting an additional $1,160,000 for Tropical and Subtropical Agricultural research. The funds will be used to further develop the research programs being conducted with USDA's primary State cooperators; to add research needed to improve food production in American Samoa, Guam, and the Northern Marianas; and to strengthen the program at the Mayaguez Institute of Tropical Agriculture in Puerto Rico. The research conducted with Section 406 funds is carefully balanced between the needs of agriculture in the participating States and in the developing countries in the Pacific and Caribbean Regions, as well as of international agricultural

research institutions, such as CIAT in Colombia or IRRI in the Philippines, that assist in the development of certain areas.

TRI-FLY

Mr. AKAKA. Mr. Secretary, for fifty years Hawaii has been beset with a difficult pest problem—the fruit fly. We suffer from infestation from three varieties, the Mediterranean, Oriental, and melon fruit fly.

I take this time to acquaint you with this grave problem because of the destruction that these flies can cause. We are not alone in this; California, for example, has begun to feel the effects of infestation. If left unchecked, these flies will cause widespread damage in the fruit and vegetable industry. The cost is even greater if you consider that we are denied access to international markets because of their fear that the fly will spread to importing nations. Hawaii canot export bananas, guava, avocados, cucumbers, tomatoes, or melons because of the fruit fly.

As I have said, this is a problem that is extremely grave. If the infestation were to get out of control, many growers would go bankrupt. With the help of the Department of Agriculture we are establishing facilities to produce sterile flies to prevent females from reproducing. This may be our only hope for relief. I appreciate the Department's assistance in this, and hope we will see it continue.

Mr. Secretary, is this the kind of research and pest control program the Department plans to continue?

Secretary BLOCK. Yes, the Department is continually involved in research and methods development to control and eradicate various agricultural pests using sterile insect techniques. The Science and Education Administration's budget for fiscal year 1982 contains $2.7 million directly related to biological control research. In addition, we are developing integrated pest management techniques for fruit flies and other pests.

APHIS is involved in the use of sterile insects to control or eradicate fruit flies, bollworms, boll weevils, and screwworms. As new rearing techniques and control and eradication methods are developed, the Department may become involved in additional programs of this type.

Mr. AKAKA. What plans does the Department have to expand the program to include production of sterile Oriental and melon flies at the new facility?

Secretary BLOCK. The fly rearing facility proposed to be built in Hawaii will be designed to produce either Mediterranean, Oriental, or melon fruit flies. It will not have the capability of rearing all three species at the same time. However, additional wings can be added easily to a common support area. These wings would provide space and security to produce all three fruit fly species.

SUGAR

Mr. AKAKA. Secretary Block, the Department of Agriculture plays a significant role in recommending changes in the ISA price range. The Department has taken a responsible position in the past by recommending increases that will make the Agreement more

effective. Unfortunately, the Department has not prevailed in its recommendations. In what manner will you assert your influence to assure that changes recommended in the ISA price range by your Department are viewed as the authority on this issue in the Federal Government?

Secretary BLOCK. I am hopeful that, through close coordination with other agencies, I will be able to convince them that a viable domestic sugar industry is in the national interest, and that my Department's position in the past has been in line with that objective. I also intend to emphasize that the ISA impacts on our domestic farm program, which, of course, is an area in which my Department is viewed as the authority in the Federal Government.

Mr. AKAKA. What are your projections for world sugar production during 1981 and 1982?

Secretary BLOCK. Our projection for world sugar production in 1980/81 is 87.1 million metric tons—raw value—and 92.0 million tons in 1981/82.

Mr. AKAKA. What are your projections for domestic sugar production?

Secretary BLOCK. Our projection for domestic sugar production in 1981 is 5.8 million short tons and 5.9 million tons in 1982.

Mr. AKAKA. Do you foresee domestic consumption increasing or decreasing?

Secretary BLOCK. I see domestic sugar consumption decreasing for the next several years, perhaps by as much as 200,000 short tons per year.

Mr. AKAKA. How much impact will high fructose corn syrup have on the domestic sweetener market over the next ten years?

Secretary BLOCK. I believe high fructose corn syrup will continue to have a significant impact on the domestic sweetener market over the next five years. A number of firms have expanded their processing capacity and others have announced their intentions to bring new facilities into production in the near future. For the period beyond the next five years, the impact will depend on technological developments, as well as the price of corn for use as a sweetener versus other uses such as feed, alcohol, etc.

Mr. WHITTEN. Mr. Alexander and Mr. Robinson have some questions which they would like answered for the record.

[The questions and answers follows:]

NEED FOR SUPPLEMENTAL FUNDS FOR FCIC

Mr. ALEXANDER. Mr. Secretary, as you know, Congress last year authorized a nationwide all-risk crop insurance program. Unfortunately it was late in the year, September 26, before the law was enacted. Because the Administration was slow in submitting a budget request for the additional funding needed to operate the crop insurance program, the Congress did not pass a supplemental appropriations bill last year to fund the new program. However, the Apropriations Conference Committee and the Office of Management and Budget did authorize the Federal Crop Insurance Corporation to go forward in expending money at the new program level on the assumption that supplemental appropriations would be provided this year.

Unfortunately, it appears that the FCIC will run out of administrative funds by April if a supplemental appropriation is not awarded. Can you tell me what you intend to do about this problem, what additional funds are needed for administrative expenses, and whether these funds will have a high priority in your budget request?

RESPONSE. The supplemental budget request submitted by the Federal Crop Insurance Corporation for $49 million to cover operating and administrative expenses carries the highest priority within this administration. We have placed this high

priority on the supplemental budget request primarily because of the severe implications which this Administration, and I am sure Congress as well, wishes to avoid. Without congressional approval of this supplemental budget request by the end of April, FCIC will be forced to cease operations. The repercussions of this action on insured farmers who would not receive their loss payments, on some 8,000 agents who have contracted to sell crop insurance, and on 21 companies who plan to participate in the reinsurance program for the 1981 crop year would be grave indeed. In addition, the policy objectives set out for this program would clearly be dealt a grave setback if operations in fiscal year 1981 were interrupted. The highest urgency must be placed upon congressional consideration of this supplemental budget request during the next two months.

SOIL AND WATER CONSERVATION

Mr. ROBINSON. A big agriculture issue in 1981 and many years to come could be our soil and water. Many feel that the base of U.S.'s agricultural strength is eroding, and that without some kind of revolution in policy or technology that will save our soil and water, we may have to choose between exporting food and feeding our own citizens. The financial pressures today inhibit farmers from investing large outlays of capital to apply conservation practices. Could you comment on this matter?

RESPONSE. Again, I would like to emphasize the importance that I place on agricultural land as perhaps the Nation's most valuable resource. I'm also aware of the new consensus that is calling for protection of our land resource base. To encourage movement in this direction, I support a variety of approaches including Federal incentives to State and local governments, joint development of State conservation plans, and incentives to individual landowners. I view money spent on improving our natural resources as a good investment and one that will be reflected in a healthier economy. However, I am also fully aware of the need for redirecting many of our natural resource conservation programs so that involvement of local government is stressed further and individual Americans are more able to help themselves.

NATIONAL LAND-USE POLICY

Mr. ROBINSON. In a recent news article in the Washington Star you were quoted as calling "for a national land-use policy designed to halt urban development of some of America's richest farmlands" in a session of the National Agricultural Lands Conference in Chicago. I would like to hear you expand on this statement and your feelings on land-use policy.

RESPONSE. The National Agricultural Land Study has built a strong case for establishing a national policy for protecting good agricultural land. I support such a policy. For everyone involved in a national land policy in the coming decade, there are three immediate and top priority responsibilities. The first is to change the way Americans think about their land. Most Americans see no limits and recognize no boundaries. Everyone must realize that in the next 20 years we will see a 60–85 percent increase in demand for U.S. agricultural products while at the same time urbanizing 3 million acres of production land each year.

The second responsibility is to make Americans understand the severity of the situation—there is a crisis in the making. To meet projected demands for the next 20 years, most of the nation's 540 million-acre cropland base would have to be in cultivation. This would mean major shifts in the U.S. agricultural system—taking land away from forage and grazing uses, farming poor quality land that is costly to cultivate and subject to erosion and environmental problems—and resulting higher food prices. The chain of problems would be lengthy and expensive.

The third responsibility is to convince the nation that once we reach the crisis stage, there's no turning back. The effects of urbanization are irreversible.

I believe that those of us in Government have an obligation to ourselves and to the people of this country to protect our precious farmland.

CRITERIA FOR SELECTION OF NEW COUNTIES AND CROPS FOR CROP INSURANCE

Mr. ROBINSON. The ambitious program undertaken by the FCIC in implementing the nationwide expansion of the all-risk crop insurance program mandated by P.L. 96–365 seems to be very complicated. I understand that the program is being implemented in 250 new counties each year for fiscal year 1981 through fiscal year 1985. Could you please describe in some detail the formula by which FCIC determines what crops and/or counties are to be covered?

RESPONSE. The primary consideration is the total acreage planted in each county to the low-yield disaster crops of corn, grain sorghum, cotton, wheat, rice and

barley, because of the termination of this ASCS program at the end of the 1981 crop year.

The Federal Crop Insurance Corporation also uses several other criteria for selection of new counties and crops: the importance of the crop in terms of acreage, number of producers, and the contribution of the crop to the total agricultural income of the county; the interest exhibited by farmers, credit agencies and others in the insurance service being made available in the county; whether sufficient and reliable actuarial data are available for the establishment of sound coverages and rates and measurement of the risk factors involved; the time required to develop a sound actuarial structure for the county; and the availability of funds for setting up the program and administering it.

Mr. ROBINSON. I find it difficult to explain, for example, why it is that certain crops are being made eligible for coverage in some counties of Virginia when these crops also are major damage-prone elements of the agriculture of other counties of the state; and why certain fruits are being made eligible for coverage in some counties of certain other states when they are predominant crops in some Virginia counties, in which the new insurance coverage is not being made available.

RESPONSE. The goal of the Corporation is to establish crop programs on all eligible crops in all counties as soon as resources can be made available. The main consideration for the selection of new crop programs was the total combined acreage of the crops in the county with priority given the low-yield disaster crops.

The Corporation has requests on file for an apple program for Virginia. Due to the press for crop expansion on disaster crops, no new apple programs were made available for 1981 in any state.

SUPPLEMENTAL REQUEST FOR ADMINISTRATIVE AND OPERATING EXPENSES

Mr. ROBINSON. My last question regarding the FCIC is, in view of the complex nature of the expansion of this program, does the supplemental request realistically and adequately fund the necessary administrative expenses?

RESPONSE. Yes, the supplemental request of $49.2 million for administrative expenses would provide sufficient funds to implement the program under the new legislation, and expand crop insurance into 250 new counties for crop year 1981.

FARM CREDIT INFORMATION

Mr. ROBINSON. In February of 1980, a GAO report indicated that farmers are often unaware of the differences in credit available to them. Outstanding farm debt at this time has reached staggering levels, and it is difficult to imagine how farmers will be able to pay off this debt. However, as credit is necessary for the survival and the efficiency of the family farms, information on sources of credit, interest rates and terms, and application procedures is necessary. Is a central source of credit information for farmers being developed as suggested in the GAO report?

RESPONSE. The Department of Agriculture responded in May, 1980 to the recommendations to the Secretary of Agriculture contained in the GAO report you refer to, by proposing to encourage State extension Services to provide information to farmers on farm credit sources, and to fund special projects to develop handbooks on credit sources. The Department's Science and Education Administration-Extension has followed up on these recommendations, most specifically by funding a special project with Clemson University to prepare and distribute such a handbook. The results of the evaluation analysis and copies of the handbook will be distributed to other States, and provided to the Congress. It is anticipated that the handbook will be available by October 1, 1981, with the evaluation analysis completed by April 1, 1982.

BRUCELLOSIS

Mr. ROBINSON. In Virginia we thought that brucellosis was under control, and that we had basically eradicated the disease from within our borders. Recently, I have become alarmed by a rise in brucellosis cases. My colleague, Mr. Watkins, has also noted an increase of incidence in Oklahoma. The Virginia Commissioner of Agriculture believes that Virginia cattle have become infected from cattle shipped in from other states which have not been as diligent in their surveillance and eradication activities. As you know, Mr. Secretary, brucellosis is a highly contagious and infectious disease which can severely affect the nation's cattle and dairy industry. Can you give me any indication as to how the brucellosis eradication program will fare in the proposed budget? It would be my hope that we could focus more attention on a national total eradication program.

RESPONSE. The budget request of $87,375,000 for fiscal year 1982 should result in a net increase to the brucellosis eradication program of about $3.7 million. With

continued support of this program in upcoming years, we feel the total eradication effort can be completed within 12-18 years.

The proposed $3.7 million increase will allow Florida's eradication program to reach its peak during fiscal year 1982. Limited herd depopulation will be continued in all but three high-incidence States. Accelerated programs in additional States will not be initiated, because this would create a need for larger indemnity expenditures. Depopulation of exposed animals will be limited to the States with a lower incidence of brucellosis. The inflationary effect of higher cost for supplies, fee basis veterinarians, and cooperative agreements will utilize most of the increase in the budget.

AGRICULTURE YEARBOOK

Mr. ROBINSON. Mr. Secretary, could you please tell me if the theme for the next Agriculture Yearbook has been selected?

RESPONSE. Yes, a tentative theme has been chosen. It is "Will There Be Enough Food?" In general, the yearbook will deal with the contribution of agriculture to the Nation's welfare.

LABOR SAVING RESEARCH

Mr. ROBINSON. The previous administration supported a shift of emphasis of federally funded research from labor saving applied research to basic scientific study. Can you tell me your position on this issue?

RESPONSE. I am concerned about the signs that suggest the productivity of American agriculture has been tapering off in recent years. This trend must be reversed if we are to maintain a highly productive agriculture that can continue to provide consumers the high quality, reasonably priced food and fiber supply that they desire and also provide for future export requirements. To achieve these objectives, I believe our research policy must balance the needs for present and future productivity gains. I am not opposed to mechanization research per se. Increasing energy prices are making many processes and practices economically obsolete and I believe research can help find more economical approaches. The potential payoffs from all of our research programs will be considered as well as the potential impacts as we prepare our plans for funding.

EFFECT OF ELIMINATING CURRENT LENDING ARRANGEMENT BETWEEN FFB AND REA

Mr. ROBINSON. One of the Congress's objectives in authorizing the guaranteed loan program in REA was to increase the private credit involvement in REA's loan programs. However, almost all loans REA guarantees are made by the Federal Financing Bank, a wholly owned government corporation that receives its funds from the U.S. Treasury. This practice has converted REA loans in the past to direct government loans. Will the President's proposal to discontinue Federal Financing Bank direct lending to REA borrowers curtail greatly REA's electric generating activity in rural areas because of increased costs?

RESPONSE. Obviously the proposal to eliminate the current arrangement between REA and the Federal Financing Bank will result in some higher costs for these generation and transmission loans. We do not, however, anticipate that the borrowers will have any real difficulty in obtaining funds from other lending institutions since these loans will still be guaranteed by the full faith and credit of the United States Government. There seems to me to be pretty good evidence that even if this change caused a 1 percent increase in the cost of this guaranteed credit, that increase would not significantly alter the demand for funds. Other factors such as the price of gas will probably have a much more important effect on the demand for REA guarantees to build generation and transmission facilities than the increased capital cost caused by this change.

FMHA BIOMASS ENERGY LOAN PROGRAM

Mr. ROBINSON. The President's proposal terminates FmHA's fuels and biomass loan program and rescinds $500 million of unobligated funds from that program. We have had a good deal of activity in gasohol fuels development in Virginia. Can you tell me what you think will happen to those companies who had pending loan applications, and surmise the general future for alcohol/methane fuel production?

RESPONSE. I believe that with the more realistic fuels pricing structure which will result from the accelerated deregulation already acted on by this Administration and the substantial state and federal tax incentives, private capital will be sufficient to provide for the development of alcohol and other biomass fuels production.

FMHA WATER AND WASTE DISPOSAL LOAN PROGRAM

Mr. ROBINSON. I noted that the President's proposal reduces the proposed loan levels for Water and Waste treatment in the Farmers Home Administration. This program has been particularly important in our area, and I wonder if you could comment on the potential effect this cutback will have.

RESPONSE. I realize, of course, that this program has provided essential benefits to rural communities. At the same time, however, it is the position of the Administration that there should be less Federal involvement in the allocation of credit resources throughout the economy. The heavy government borrowing and lending which has grown since the mid-1970's is a major factor in the inflation and exhorbitant interest rates we see today. Unfortunately, there is no way to gain control of the situation without taking action down at the individual program level. Still, our water and waste disposal program proposals for fiscal years 1981 and 1982 will be designed to focus program benefits to the communities which most need our support.

DAIRY

Mr. ROBINSON. Mr. Secretary, from the information I have, only slight improvement is expected in the supply-demand balance from milk and milk products in 1981 over the experiences of 1980. Lack of much improvement in market conditions will prevent milk prices from increasing at the same rate as milk production costs. In view of these predictions, what do you see as the outlook for dairy farmers, considering the President's proposal to eliminate the mandatory increase in dairy price supports currently required by law on April 1, 1981?

RESPONSE. Under the past policy milk prices have been increasing faster than milk production costs—creating a serious imbalance between milk supply and demand. If the April 1, 1981 increase in not made, milk prices would still be expected to be above the U.S. average cost of producing milk. The USDA cost study submitted to Congress projected the 1980 cost of producing milk at $11.33 per cwt.—up 7.9 percent from a year earlier—$1.71 per cwt. below the $13.04 per cwt. annual average all milk price. Farm cash receipts for 1980/81 with no increase in supports are projected at $17.9 billion—up 11.9 percent from the $16.0 billion received in 1979/80.

PROPOSED BUDGET CUTBACKS IN THE AGRICULTURAL EXPORT AREA

Mr. ROBINSON. In considering the proposed agriculture budget cutbacks, what will be the effect upon our efforts to develop greater sales in our agriculture export program?

RESPONSE. I do not believe that agricultural budget cutbacks proposed by the President will seriously damage our efforts to develop greater export markets.

EXPORT CREDIT PROGRAMS

Mr. ROBINSON. An October 1979 GAO report recommended several administrative and statutory changes to strengthen the Agriculture Export Credit Sales program's market development objective. Among these were suggestions to intensify efforts to develop strategic marketing plans, tighten regulations, review procedures to reduce the risk of reducing cash sales, and reduce the influence of economic and political consideration on decisions within the program. Could you comment on the direction of this program?

RESPONSE. CCC's commercial export programs have undergone substantial change since the GAO report came out and CCC profited from recommendations in that report when it reorganized its planning efforts and developed new programs. In terms of planning, the major change was to focus more individual country expertise on the analysis of each allocation request. The program is allocated on the basis of requests from U.S. exporters or foreign buyers. In many cases these requests are stimulated by the overseas marketing efforts of this Department's agricultural counselors and attaches located in U.S. embassies in over 70 foreign countries.

Through an internal reorganization in early 1980, the country analysis capabilities of the staff which reviews each request was considerably enhanced. Each request is now reviewed by an FAS area manager and his staff, the respective overseas counselor or attache, the commodity divisions in FAS, financial analysts, and finally, the larger requests are reviewed by the National Advisory Council on International Financial and Monetary Policies, an interagency group.

Area managers prepare a written analysis of each request in order to examine the past level of imports and expectations for future business. Through this process we have the capability to identify market opportunities and develop strategy for ap-

proval of credit requests, choosing those requests which will most help to increase U.S. exports, both in the short-run, and over the longer term.

The GAO report focused on the Export Credit Sales Program, GSM-5, which is not funded during this fiscal year. Nevertheless, the issues raised by GAO helped CCC in developing of the Export Credit Guarantee Program, GSM-102, in which private banks provide CCC-guaranteed financing. CCC operated an earlier guarantee program, GSM-101, for over a year, and then used the experience gained under that program to develop the GSM-102 Program in a manner which would more fully meet the program objectives of market development. The regulations were tightened both by amending the GSM-102 Program which covered political risk, and be developing the GSM-102 Program, which eliminated the distinction between political and commercial risk. Thus, CCC's planning credits, regulations, and review procedures have moved forward considerably since October of 1979, and they are continuing to improve.

In terms of the political and economic influences on the commercial export credit program, we cannot run any such program in a closet, hidden from broader economic and political considerations. Interagency review makes it certain that broader consideration will be raised. Nevertheless, there has been some danger of a distortion of the program into a foreign aid program and away from its purpose of increasing commercial exports. The line between market development and general political considerations is not always clear, but nonetheless it does exist. To put it simply, it is not a commercial transaction if the purchaser is unlikely to pay back the money with interest when it is due.

This problem has surfaced recently in the case of Poland. Poland has been a good commercial market for our exports and rightly benefited from CCC credit programs for a number of years. However, when the Polish situation deteriorated, the sympathy of our government for the Polish people led to the use of the GSM-5, GSM-101, and GSM-102 Programs to assist Poland, even though use of the programs were little more than a temporary stop-gap measure. Short-term credits at commercial rates of interest cannot be used effectively for foreign aid and may help to push countries closer to the brink of financial crisis.

The Congress has stressed the commercial nature of the CCC programs and I would hope that there will continue to be support in the Congress and the Administration to avoid use of CCC commercial export programs for foreign aid purposes, both because such uses distort the market development objectives of the program and because the programs are unsuitable for such uses.

AGRICULTURAL TRADE OFFICES

Mr. ROBINSON. Can you tell me if there are any plans for additional U.S. Agricultural Trade Offices?

RESPONSE. There will be no plans for additional agricultural trade offices until we have carefully evaluated the total of 11 that we hope to have operational by the end of 1981.

FOOD STAMP SUPPLEMENTAL

Mr. WHITTEN. Mr. Secretary, we appreciate very much your appearance here today.

There are some pointed questions I think I should ask for the benefit of the Committee. In your statement you ask for supplemental food stamp funds. When will they become necessary and how much is required? Any figures you give us are subject to correction by you in the record.

Mr. DEWHURST. $1.25 billion is the Reagan Administration estimate.

Mr. WHITTEN. When will that become necessary?

Mr. DEWHURST. About the end of July, Mr. Chairman.

Mr. WHITTEN. The present law has a cap on the amount of funds which can be appropriated. What steps have you taken to get the law changed which would be necessary in order to appropriate more money?

Secretary BLOCK. It will come in on the 10th of March.

FEDERAL CROP INSURANCE SUPPLEMENTAL

Mr. WHITTEN. You also mention crop insurance. When will you have to have supplemental funds to carry out crop insurance operations?

Secretary BLOCK. We will have to have that before July, probably.

Mr. DEWHURST. The administrative money will run out in April, Mr. Chairman.

Secretary BLOCK. It is soon then. It is very critical.

Mr. WHITTEN. That is where the work is done.

Mr. DEWHURST. Yes.

CLOSING REMARKS

Mr. WHITTEN. Mr. Secretary, the high hopes of the President may be carried out. But when you hear figures as to what the cost will be, how long it will take and what the end result will be, it is your best judgment but some of the estimates are quite optimistic.

The thing that frightens me about taking off all the controls on oil and oil prices is that it appears the decision was based on the assumption we're just using gasoline riding around in cars, whereas fuel plays a big role of the cost in agriculture and so many other places in our economy.

The figures used in the speech and the figures I find elsewhere fail to realize the cost of fuel will greatly increase costs of production just about everywhere you look.

As it stands now, as long as domestic oil companies can buy oil anywhere and are entitled to mark it up they will not take the oil out of the ground at all. They will use the fact there is no control to continue to buy high-priced oil, mark it up as they see fit and keep their oil in the ground. The big oil companies are pretty smart or they wouldn't be as big as they are, you know.

The other thing is if we don't do something about interest rates, all of this goes by the way. Until we go to work on interest rates, I don't see much hope to get out of this fix we're in. I repeat again, we have to take care of our capital, our real wealth, because money is only a medium of exchange.

Again, we appreciate your coming here. I want to say that we may ask more pointed questions when you have all your facts and figures available. It will be friendly and it will be from the heart.

Thank you very much.

[The Secretary's statement follows:]

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FOR RELEASE ONLY BY THE HOUSE
COMMITTEE ON APPROPRIATIONS

Statement
By
Secretary of Agriculture John R. Block
Before
House Appropriations Subcommittee on Agriculture,
Rural Development and Related Agencies
February 19, 1981

Mr. Chairman and members of the Committee, it is indeed a privilege to appear before you today. As a farmer, and as a director of a State Department of Agriculture, I have recognized for many years the depth of the contributions, foresight, and leadership that this Committee has provided for American agriculture. And you, Mr. Chairman, are widely known as one of agriculture's most eloquent and effective spokesmen. For this I salute you.

I look forward to working with you in the next few years to keep agriculture the most productive sector of our economy. For agriculture to remain strong, however, our farmers and ranchers must be able to operate in an overall economic environment that is stable and not inflationary.

As you and I know, inflation is the Number One enemy of American farmers. Inflation is weakening the operations of millions of individual farmers and undermining the very foundation of our national agriculture. We must attack this problem with firm resolve, with ingenuity, and with a well-coordinated range of solutions, starting with reducing the rapid growth in the federal budget.

During President Reagan's campaign and since taking office, he has made clear his commitment to restore real economic growth to the nation. That is this nation's most urgent need and an objective that we all share. The overall economic policy that can accomplish these goals is based on the following points:

-- The key to increased economic growth and increased employment is to restore adequate incentive for production in the private sector. Economic growth rises out of increased production, and production rises from the decisions of businesses and individuals who have faith in the future.

-- The present tax structure--as it applies to both businesses and individuals--and the present level of many public sector activities create serious and far-reaching disincentives to many important, private economic activities.

-- The present unacceptable high interest rates and high inflation rates--both in real and psychological terms--are directly linked to the present level of federal borrowing required to support federal loan activities and to finance continuing deficits in the federal budget.

-- The major mechanism for lowering inflation, reducing interest rates, increasing business investment, and enhancing economic growth is to reduce the overall level of federal activity and to encourage private economic activity.

As we begin this new administration, it is necessary to focus our attention immediately on three very important areas: tax reductions, regulatory relief and budget reform. The impact on the economy of each of these, and the impact of proposed changes, must be clearly understood if we are to strengthen the economy. This understanding and this responsibility will require a continuing dialogue between the administration and the Congress.

That process is already underway. My purpose here today is to further and strengthen that cooperation. I am pledged to continue to work closely with you in the future to maintain our mutual efforts to strengthen the agriculture that you and I know so well, and which is the underpinning for the strength of this nation.

At the Department of Agriculture one of our first tasks will involve legislation. The department's basic farm legislation expires at the end of this year. The programs authorized by this legislation are vital both to agriculture and to the American public. Those programs provide needed stability for America's farmers and American farm production. As we consider this legislation, we will carefully review the present target price program that provides direct income subsidies. We will also review the operation of the commodity loan and reserve programs, including reserve release and

call price levels. These programs are designed to help farmers hold grain until the market reaches fair price levels. We will recommend the necessary changes in these programs to assure that farmers have the support necessary to provide adequate and dependable supplies of food and fiber. If we will stem the tide of rising production costs by bringing inflation into line--along with very aggressively expanding U.S. exports--we will bring favorable returns to farmers and greatly reduce the need for government intervention in the farm sector.

To achieve the desired expansion in exports, the U.S. must be viewed as a dependable supplier of quality products. For this reason I advocate lifting the Soviet grain embargo. The embargo harms our image as dependable suppliers and ultimately reduces farm income. However, in a world as complex as ours, there are other factors that have to be considered. As you are aware, the President is weighing those factors.

Even with the embargo, agriculture continues to be a shining light in an otherwise dismal picture of international trade balances. Our agricultural exports in fiscal year 1980 totaled $40.5 billion and are projected to reach $47 billion during fiscal year 1981. The agricultural trade balance in fiscal year 1980 reached $23 billion and is expected to reach $28 to $30 billion in fiscal year 1981. Were it not for agricultural exports, the U.S. would have had an estimated foreign trade deficit in 1980 of $50 billion. We intend to pursue efforts aggressively to increase productivity and to expand our export markets.

I think it is important for all of us to understand that rising production costs continue to cut into farmers' cash flow and undermine their economic well-being. Yet, we must keep in mind that we Americans are paying a smaller percentage of our incomes for food today than we did in 1950, far less than most of the rest of the world.

I do not believe it is necessary to make a tradeoff between consumers and farmers. Consumers and farmers have been and will continue to be partners. However, consumers cannot and should not ask farmers to produce food at a loss. In the long run, a strong farm economy is in the consumer's best interest. Our legislative program will assure adequate supplies of food, at a reasonable price to the consumer, with a fair return for the farmer.

Our food is the most plentiful, nutritious, healthful, safe, and reasonably priced in the world. A strong, prosperous farm economy will assure consumers that it will stay that way in the future.

We are also reviewing all of the department's other legislative authorities. It is our desire--and I am sure the Committee's desire--that federal spending be reduced by tightening up on program management wherever possible, while continuing to provide assistance for those most in need. Our legislative agenda will reflect this delicate balance.

On the regulatory side, regulatory relief and reform will be a priority of the Reagan administration and of my tenure in the department. As a farmer, and as a state official, I have seen first-hand the burdens and problems that unnecessary federal regulations can create--and the dampening effect they can have on productivity. We are committed to reviewing our existing regulations to see that they are more clearly written, that they are no broader than necessary, and that functions that the states can perform more effectively are indeed left to the states. We must also carefully consider the impact of the regulations on those affected by them and know that we have selected the most cost-effective way of regulating permissible under the law. Those same principles will guide our development of any new regulations that the department issues.

Finally, with respect to the budget, President Reagan yesterday announced a series of significant reductions that cut across the entire federal government. In the short time we have had to reconsider the fiscal year 1982 budget, we have tried to deal with those programs that have a major impact on government spending. Only a few major budget modifications were announced yesterday. The balance will be presented in early March.

For the U.S. Department of Agriculture, the changes to the fiscal year 1982 budget include:

FEDERAL CREDIT PROGRAMS

Farmers Home Administration Loans. We are recommending a 25 percent reduction in new direct lending by the agency. FmHA has made more loans in the last three years than in all prior years of its existence. It is apparent that the federal government is taking over a larger and larger segment of private lending and thus is allocating more of our available capital. It is imperative that we get these lending programs under control, allow credit market forces to allocate more of the capital, and let FmHA get its management activities in order. We will continue, however, to target resources for the most needy.

In addition, we are recommending that the $500 million alcohol fuels-biomass loan program administered by USDA be terminated. A companion program administered by the Department of Energy is also being recommended for termination. We believe that other incentives, especially tax incentives, are sufficient to encourage the necessary levels of alternative fuels production. Furthermore, I believe that private lenders will and should be investing in those activities without government intervention.

We are not opposed to gasohol, but we feel that under the present circumstances it will be better for private efforts to finance profitable alcohol plants where appropriate.

Rural Electrification Administration Loans. We are recommending two major changes in this area. The first is a 25 percent reduction in all direct lending activities for REA, which is consistent with our reduction in credit programs in FmHA. This reduction includes the elimination of all direct loans for telephone systems and for electrical generation and transmission facilities. The special 2 percent interest rate on direct loans for other electrification purposes would also be eliminated.

The second change for REA is to eliminate the Federal Financing Bank as a source of funds for the loan guarantee portion of the program. We believe that these loan activities should be shifted to the private sector.

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Having grown up on a farm, I am aware that REA has done a great job of bringing electricity to the nation's farms. This lightened the back-breaking physical work and the drudgery in the home and on the farmstead; it brought modern conveniences to the family; it modernized and mechanized farm tasks--but that job is largely done. The same urgency and need no longer exists. We can turn our attention and our funds to other more pressing things.

DOMESTIC FOOD ASSISTANCE PROGRAMS

Child Nutrition Programs. For these programs, we will continue to protect fully those children whose families are at the lowest end of the income spectrum. We are, however, proposing to eliminate all subsidies for children whose family earnings are in excess of 185 percent of the poverty level and to reduce the subsidy for children whose family earnings are in excess of 125 percent of the poverty level. This would mean that the average cost to the child of a reduced price lunch would go from 20 cents to about 64 cents. However, school districts would continue to receive an average federal subsidy of 64 cents per meal. We are proposing to eliminate snacks in the child care and summer feeding programs and the elimination of school feeding programs in private schools that charge more than $1,500 for tuition. These proposals will reduce costs about $1.6 billion while continuing to provide a free lunch to the neediest children.

I take a back seat to no one in my concern for the welfare of needy children. I intend to see that they are taken care of. But some of our food programs have grown into middle class welfare. This nation has given those of us in the legislative and executive branches of government a clear signal--middle class welfare does not have a place in an economy struggling to reduce deficits, curb inflation, restore economic incentives, create jobs, build our national defense, and get this country going again.

The Food Stamp Program. In this program our policy once again is to protect those at the lowest end of the income scale and to take care of the truly needy. Our proposals will have the effect of eliminating from the program people whose gross income is above 130 percent of the poverty line while essentially protecting the benefits of those who remain in the program. In addition, we are recommending:

-- A reduction in food stamp benefits for those families who have children currently receiving free school lunches. This will eliminate an apparent duplication of benefits.

-- Reducing and freezing deductions for the determination of benefit levels.

-- Instituting a number of management changes, including prorating first month benefits to recipients to ensure that benefits are more equivalent to the number of days in the month for which assistance is needed, and calculating benefits based on actual recent income rather than projected income.

All told, these changes are expected to save $1.8 billion in fiscal year 1982.

DAIRY PAYMENT PROGRAM

This program has become very expensive and continues to encourage increased production as government dairy surpluses grow. The American people need, and want, adequate dairy production. Dairy farmers are beset by high costs and rigorous health regulations--and no one works harder, seven days a week, than our dairy farmers. But we cannot justify a program that rings up increasing dollar costs and mounting surpluses at the same time. That can't be in the long-time best interest of dairymen. We are proposing legislation which will eliminate the April 1 semi-annual cost index adjustment. This will produce $138 million in savings in fiscal year 1981 and additional savings in subsequent years. We will conduct a thorough review of the dairy program as part of our continuing review of all commodity programs.

We are now turning our attention to a broader spectrum of programs. As we review the budget for all USDA programs and as our legislative proposals are completed, I am sure we will find other areas where adjustments will need to be made. We will formally submit all of our amendments to the fiscal year 1982 budget in the next few weeks.

Two requests for supplemental appropriations are currently pending before the Congress that I am very concerned about. The first is to provide funds to operated the Federal Crop Insurance Corporation during the last half of this fiscal year. We hope to implement this program nationwide to permit substantial reduction in federal payments

for various disaster payment programs. Based on the legislative history established for the fiscal year 1981 appropriation act, Federal Crop Insurance Corporation has proceeded with full implementation of the nationwide program in fiscal year 1981. As a result, in early April, the agency will have exhausted all available operating and administrative funds and will not be able to continue operations.

The second is to enable us to continue the current level of food stamp benefits through the balance of the fiscal year. Without additional funds, I will have no choice but to reduce benefits to those in need of food stamps. Your assistance in obtaining passage of these supplemental appropriations is urgently needed and will be greatly appreciated.

I know and understand the difficulty the Committee will have in dealing with these changes I have discussed today--they raise important and difficult issues and the time available to consider them is short. Reducing federal spending is never easy, as you well know. But we must do it and we must do it now--if not the federal deficit will soar to alarming heights in fiscal year 1982. The American people have told us that is not satisfactory. As stewards of the nation's strength and architects of its future, you and I know that it is not satisfactory.

I am sure that by working together, and by making hard choices together, we will be able to develop sound programs and financial proposals for the Department of Agriculture. They will help revitalize the American economy and help us grow as a nation to new heights of accomplishment, full of promise for our people and our farmers.

As the foundation of it all, is a profitable, productive agriculture which permits farmers to adjust to marketing opportunities, maintain a modern farm plant, conserve the soil, use energy wisely, and participate in a renewed future for them and their children.

Thank you.

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WEDNESDAY, FEBRUARY 4, 1981.

GENERAL AGRICULTURAL OUTLOOK

WITNESSES

J. DAWSON AHALT, CHAIRMAN, WORLD FOOD AND AGRICULTURAL OUTLOOK AND SITUATION BOARD
J. B. PENN, DEPUTY ADMINISTRATOR FOR ECONOMICS, ECONOMICS AND STATISTICS SERVICE
RICHARD J. CANNON, ASSISTANT ADMINISTRATOR, COMMODITY PROGRAMS, FOREIGN AGRICULTURAL SERVICE
JAMES R. DONALD, OUTLOOK REVIEW OFFICER, WORLD FOOD AND AGRICULTURAL OUTLOOK AND SITUATION BOARD
ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. The committee will come to order. We start our hearings today on the agricultural appropriations for the fiscal year 1982.

We are indeed glad to have with us today new members of the committee. I recently made a talk to the Limestone Association in which I claimed the reason I had managed to stay here in Congress so long is that I took the advice of a friend of mine who served with me in the Mississippi Legislature. He said that when he was a youngster he listened to older people and got ahead, and now that he was middle-aged, he listened to the young folks. So, we have put some new blood on this committee and we are going to listen to them.

We have our friends Danny Akaka, from Hawaii; Wes Watkins, from Oklahoma; Virginia Smith, from Nebraska; and Jerry Lewis, from California. So, we are going to have a lot of new help on this committee this year. We welcome all of you here. As I told them in the full committee, now that it looks like we are going to have to cut everything this year, we welcome them volunteering to help us defend ourselves.

I do say for the record that, while we don't need to waste any money anyplace, when people think that they can save money by deferring protection of our soil, timber, and other resources that we have, and letting the country go to the dogs, they are shortsighted. This is not a new opinion on my part, and I am sure that our new colleagues join with us in realizing that food, clothing and shelter come first.

I am concerned that the press and many people in high positions haven't understood that the laws have allowed industry and labor to get a bigger and bigger share of the consumer dollar, leaving less and less for the producer of raw materials. That means there

is no way to keep balance except by providing to the producers of raw materials the difference which through law the other two segments have received.

So, programs tagged as subsidies to those in agriculture are really replacing what other laws have let industry and labor take. And if people would just take time to analyze it, they would see that to be true.

I also say—and I know our colleagues know this—28 times out of 28 this committee has recommended funding for conservation programs, and Congress has backed us over the recommendations of Presidents. If we had not, about a third of our country would be wasteland today. I don't know but what we will have to try to restore those programs again, and I hope that our colleagues will listen to us in presenting this case.

It is difficult for us to go about hearings where we have before us the Carter budget, the budget of the outgoing President, with some requests for rescissions, and supplementals; because by the time we get going on that budget and the facts you will present to us today, we will hear from the new President, Mr. Reagan, with another set. But if we waited long enough, we wouldn't get through in time to do anybody any good.

So, we are going ahead, and I realize that you will have to go along with the budget that is before you, the Carter budget. But the reason we started with you was so you could give us a picture of the situation in agriculture that we all face.

Mr. Ahalt, we will include in the record any biographical sketches of any new witnesses. You might present those, if you haven't already. Some have been before us in the past. It is always a pleasure to see you. We realize that the facts are the best basis on which to make our determinations.

You might proceed, if you will.

GENERAL STATEMENT

Mr. AHALT. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you and this committee.

As you know, I am going to present the statement today because the new Assistant Secretary for Economics, Mr. Lesher, has been nominated but he has not yet gone through the process of being confirmed by the Senate. So, I am really here in a substitute capacity.

Mr. WHITTEN. Well, I always heard the top man is the "hooray" man and the fellow next to him is the one that does the work, so maybe we are lucky.

Mr. AHALT. Thank you, Mr. Chairman.

Mr. Chairman, if it is agreeable with you, I would like to ask that the statement be made available for the record, and then I will summarize some key points.

Mr. WHITTEN. We would be glad if you do so. We give you the same privilege we always have, recognizing that some things are easier to explain orally and when you reduce them to writing you need to change the approach. So, take full freedom as long as the end result is the facts as you see them.

[CLERK'S NOTE.—The prepared statement appears on pages 232 though 293.)

AGRICULTURAL OUTLOOK

Mr. AHALT. Thank you, Mr. Chairman.

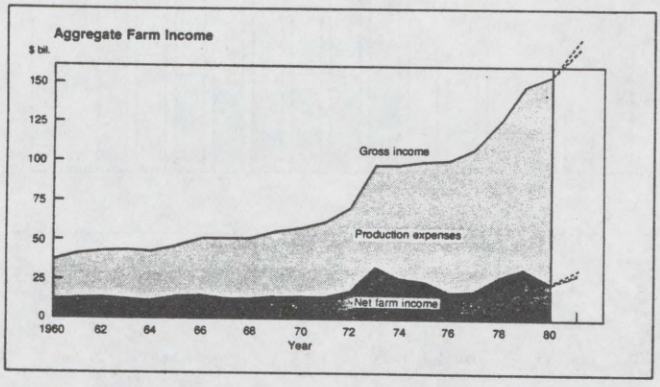
In trying to summarize what the outlook really looks like for agriculture in early 1981, we have settled on a description of cautious optimism. We are looking at much tighter commodity supplies relative to usage than we have seen for some time, and prices for the current season are expected to be stronger than a year ago.

Recently, however, market prices have eased. Rapid increases in interest rates, concern about weather, and very favorable development of Southern Hemisphere crops all have been factors contributing to an easing in the markets. Nonetheless, the situation for 1980-81 looks much improved relative to a year ago. But inflation continues to push up the cost of production items that farmers buy and to erode their incomes.

FARM INCOME AND FINANCE

So, with that kind of basic overview, what I would like to do, Mr. Chairman, is turn to page 3 and look at the chart on aggregate U.S. farm income.

[The chart referred to follows:]



Item	1965 1/	1970	1975	1977	1978	1979	1980	1981 2/
Gross income	46.5	58.6	100.3	108.1	126.9	149.6	154.9	173-181
Expenses	33.7	44.4	75.9	90.3	100.8	118.6	131.6	145-149
Net farm income	12.9	14.1	24.5	17.8	26.1	31.0	23.3	28-32

1/ Calendar year. 2/ Forecast.

Mr. AHALT. As you mentioned earlier, in 1980 we saw a very sharp decline in farm income. Our current estimate for last year is that net farm income dropped to some $23.3 billion, down from about $31 billion the previous year.

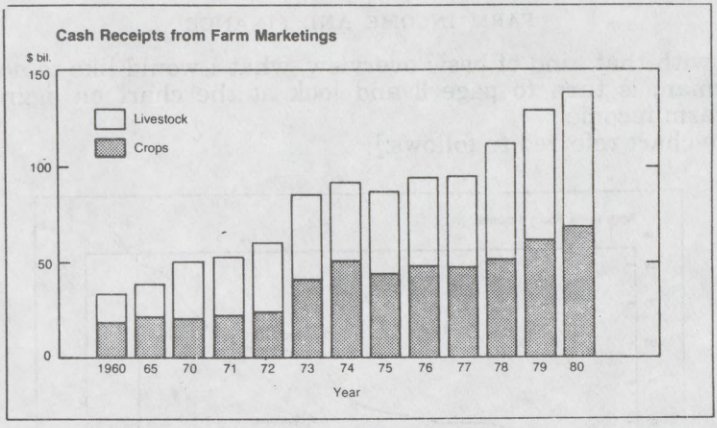
The reason for the sharp decline is that gross income went up only by a slight amount, but production expenses rose some 13

percent from the previous year, pushing net income down to a very low level.

As we look into 1981, we are projecting improvements in cash receipts to both crop and livestock producers. We believe those increases will be greater in terms of cash incomes than the rise in production expenses, allowing net income to improve. Net income is forecast to come close to the 1979 level, and we are estimating a range of somewhere around $28 to $32 billion, compared with $23.3 billion in 1980.

On page 4 we show what has happened to cash receipts from farming over the past two decades. In 1980 receipts to livestock producers barely increased, and if your cash income doesn't go up while expenses keep moving up, the net drops very sharply. That is exactly what happened in 1980.

[The chart referred to follows:]

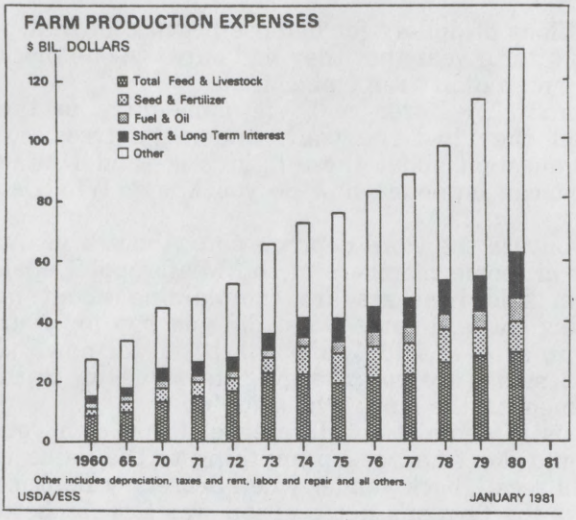


Item	1965 1/	1970	1975	1977	1978	1979	1980	1981 2/
Livestock	21.9	29.6	43.1	47.4	59.0	68.6	69.1	78-83
Crops	17.5	21.0	45.2	48.3	53.5	62.8	71.4	75-80
Total	39.4	50.6	88.3	95.7	112.5	131.4	140.5	153-163

1/ Calendar year. 2/ Forecast.

Mr. AHALT. Moving on to page 5, we show farm production expenses.

[The chart referred to follows:]



	1970	1975	1977	1978	1979	1980	Forecast 1981
			- - - Billion dollars - - -				
Feed and livestock purchased, total	12.3	17.6	21.0	24.4	29.7	30.8	35.0-37.0
Seed & fertilizer, total	3.2	8.5	8.9	9.1	9.9	11.4	13.0-15.0
Fertilizer	2.3	6.2	6.0	6.0	6.5	7.7	9.0-10.0
Fuels and oils	1.7	3.3	4.4	4.6	6.3	8.4	9.0-11.0
Short & long term interest	3.4	6.4	8.3	10.0	12.8	16.3	15.0-17.0
Taxes and rent	4.7	7.9	8.0	8.9	9.6	9.7	10.0-11.0
Depreciation	6.8	12.6	15.3	16.6	18.9	20.8	22.0-24.0
Other 1/	11.3	19.5	24.3	24.5	31.3	34.2	36.0-38.0
Total production expenses	44.4	75.9	90.3	98.1	118.6	131.6	145.0-149.0

1/ Other expenses includes hired labor, repair and all other expenses.

Mr. AHALT. Unlike incomes that farmers receive, production expenses do go up every year, and they have gone up very sharply in recent years, eating into the returns of farmers and pulling down net income.

For 1981, we expect them to increase, but we do not believe that some of the items will go up as much as they did this past year.

ACCURACY OF ESTIMATES

Mr. WHITTEN. Seeing all of this is fine, but I had a military man show me not too long ago the missiles that Russia was producing. He showed me the comparison, and they were more plentiful and much larger than those the U.S. produced. I asked him how he knew that. He said, well, he had pictures. Do you recall when the Russians, on what was their Armed Services Day, showed a tremendously big airplane, bigger than anybody had ever seen, and Senator Russell and all the leaders back here appropriated hun-

dreds of millions of dollars for defense because of that plane? And it developed after a year that they had only the one mock-up plane. The military man didn't remember that.

And we know in Korea and Vietnam—more in the Vietnam conflict—that they had the trails under the trees, so to speak.

Now, the question about these figures is—and I know they are the best that can be done—how do you know? What is this based on?

I notice you use the word depreciation. About a year and a half ago I was with some members of the Mississippi Legislature, and one of them said ranchers are complaining about not making money raising cattle. I said, "what did you pay for your land"; he said, "$120 an acre." I said, "what will it sell for now?"; he said, "a thousand." I said, "are you charging anything up to the value of your investment in the land?"; he said "no."

So, there is a whole lot of difference if you own your plant or your farm and don't charge up anything to the value that it has.

You would recall, back yonder when Secretary Benson attempted to show that the farmer's net position was far, far better because the value of his farm had gone up. Well the farmer couldn't sell it, he couldn't eat it, he had to keep it. It is kind of like your net worth going up to a half million dollars because your home gets more important, you still have to live there.

So, I know you have done the best you can, but tell us how you go about arriving at these figures about cost and income.

Mr. AHALT. Mr. Chairman, we use a variety of information sources to put together the income and expenditure series. On the cash receipts, we get information through the Crop Reporting Board on the amount of commodities that farmers market. We also collect each month the average price that farmers receive for those commodities, and from that we develop the cash receipts that farmers earn from the production and sale of their commodities.

On the expense side, the task is more difficult. We again use a variety of sources of information. For the prices of these inputs, the Crop Reporting Board surveys on a periodic basis—some each month and some several times a year—the various outlets and farm supply houses where farmers purchase their inputs.

Additionally, each year the Economics and Statistics Service takes an annual expenditure survey to gain additional information on how much the price of fertilizer, fuel, and other inputs have gone up, and, in addition, what quantity of these farmers have purchased. We use that data to build up our expenditure survey.

Mr. WHITTEN. That is ample for the present, but feel free to enlarge this in the record if you wish.

Mr. AHALT. Thank you, Mr. Chairman.

Mr. WHITTEN. Let me ask another question in that connection.

What you have described where we see 1970, 1975—by and large you have used the same system each of those years?

Mr. AHALT. Yes, sir, except——

Mr. WHITTEN. In the major parts.

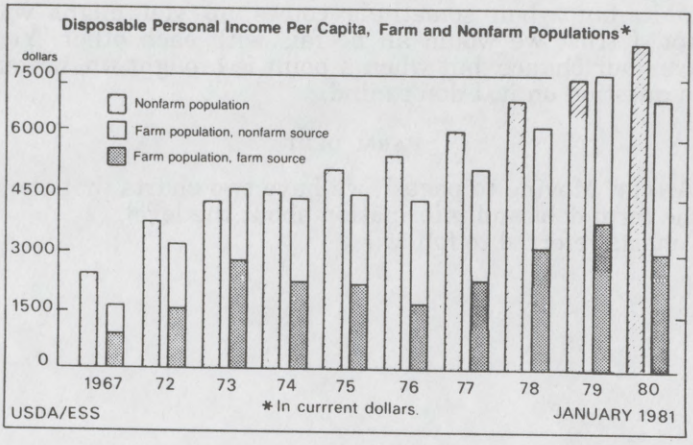
Mr. AHALT. Except that in the last several years we have gotten additional information and tried to bring in some additional sources, Mr. Chairman, because of the difficulty in arriving at accurate assessments of these costs.

Mr. WHITTEN. You may proceed.

FARM AND NONFARM INCOME

Mr. AHALT. On page 6 we show what has happened to the disposable income per person of people who live on the farm as well as off the farm.

[The chart referred to follows:]



Disposable Personal Income Per Capita--Real Dollar Basis

Item	1967	1972	1973	1974	1975	1976	1977	1978	1979	1980 1/
	----- Dollars 2/ -----									
Nonfarm population	2788	3085	3205	3155	3172	3257	3328	3417	3385	3291
Farm population	1925	2586	3531	2949	2804	2531	2899	3287	3466	2750
Net farm	936	1261	2110	1525	1378	1055	1275	1609	1800	1174
Nonfarm sources	989	1328	1421	1423	1426	1477	1624	1677	1666	1576
Farm as percent of nonfarm	69.0	83.9	110.2	93.5	88.4	77.7	87.1	96.2	102.4	83.6

1/ Preliminary.
2/ Real dollars--current dollars divided by consumer price index for all items (1967 = 100).

Mr. AHALT. This is broken down for the farm population by the amount of income received from the farm and the amount received off the farm.

In 1980, income for farm people fell, both in absolute and relative terms. It fell in absolute terms because farm income per person dropped, and that pulled down the total income, and also meant that farm people ended up earning less, relative to what the nonfarm people earned.

Mr. WHITTEN. I have frequently heard it said here, and I know you have heard it said elsewhere, that these people want to return to small farming, and that I didn't want anybody to return to small farming. You can't make any kind of a living. I like to refer to it as part-time farming.

Now, when you show that the average income from nonfarm sources exceeds that from farm, you, in effect, say that many people are part-time farmers.

Mr. AHALT. That is a very good point, Mr. Chairman, and the reason why that number is larger.

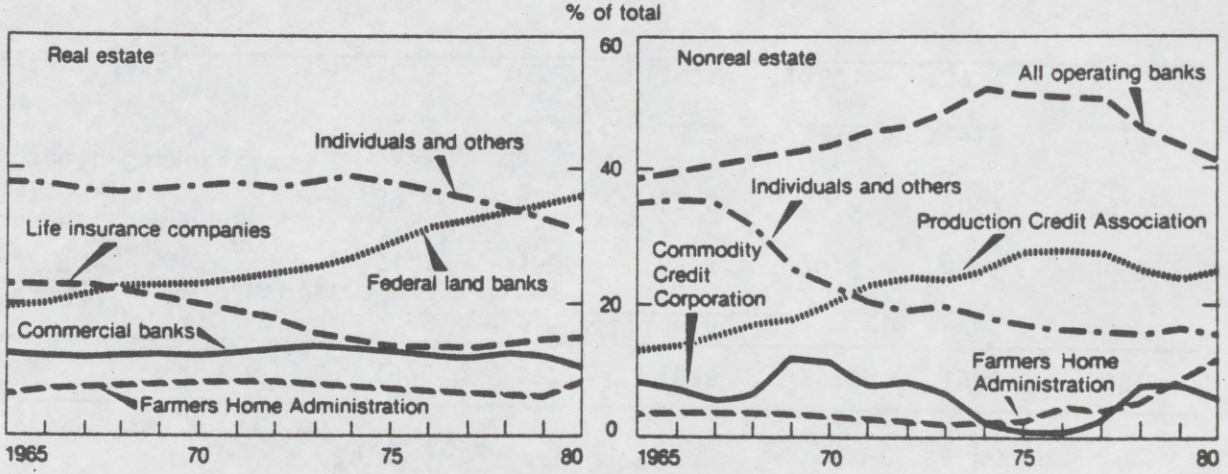
Mr. WHITTEN. I would say to my colleagues here, as Chairman I am trying to develop the record, but I don't mind anyone interrupting on a particular point. Not that you are prohibited from going back to it, but when something comes up you might want to interrupt. I trust we would all be fair with each other. You will still have your chance, but when a point is brought up, if you wish to ask a question on it, I don't mind.

FARM DEBT

Mr. AHALT. Moving to page 7, we have two charts that show who holds the farm debt and information about the level.

[The charts referred to follow:]

Who Holds The Farm Debt



Production Credit Association includes Federal Intermediate Credit Bank loans to other financial institutions. 1980 preliminary.

Total U.S. Farm Debt

	1976	1977	1978	1979	1980	1981
	- - - Billion dollars - - -					
Farm debt outstanding on Jan. 1:						
Real estate	51.1	56.6	63.7	70.8	82.1	96.1
Nonreal estate (excluding CCC loans)	39.4	45.1	51.2	60.0	70.7	79.7
Commodity Credit Corporation loans	.3	1.0	4.5	5.3	4.5	4.7
Total farm debt	90.8	102.7	119.4	136.1	157.3	180.5

Mr. WHITTEN. Would you mind adding to that and showing who is going to pay it? You know, showing what a fellow owes is not nearly as important as information on how he is going to pay it.

Mr. AHALT. That is a good point, Mr. Chairman.

Mr. WHITTEN. Do you want to wait until your boss is here?

Mr. AHALT. The chart on the left shows the sources of debt provided by the various lenders, and you can see that the Federal Land Banks in recent years have accounted for a growing share of the amount of farm real estate debt. At the same time, where individual and other sellers used to hold most of the farm debt, they are now holding a smaller share than the land banks. The amount of lending for farm real estate purposes by the insurance companies has been declining in recent years.

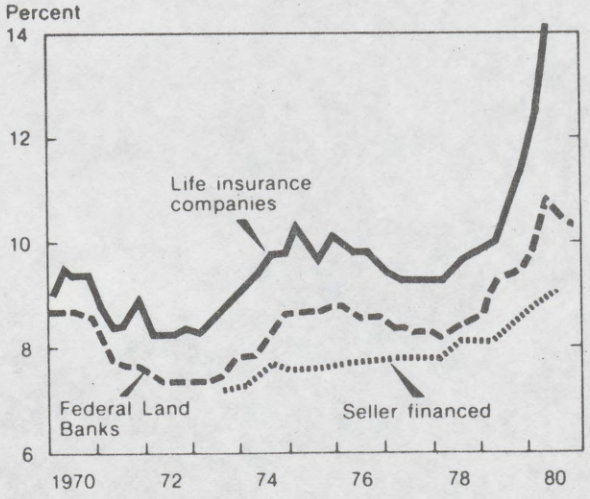
On the right side we see the nonreal estate lending, and here, of course, we see the sharp dropoff of lending provided by the various banks. That was a very serious problem in 1980, as farmers tried to get loans to plant their 1980 crops. They were faced with very high interest rates, and even lack of credit in some areas.

You also will notice an upsurge in the amount of lending provided by the Farmers Home Administration and the Production Credit Associations this past year.

Moving to page 8, you can see a very sharp escalation in all interest rates, both for real estate loans as well as nonreal estate loans.

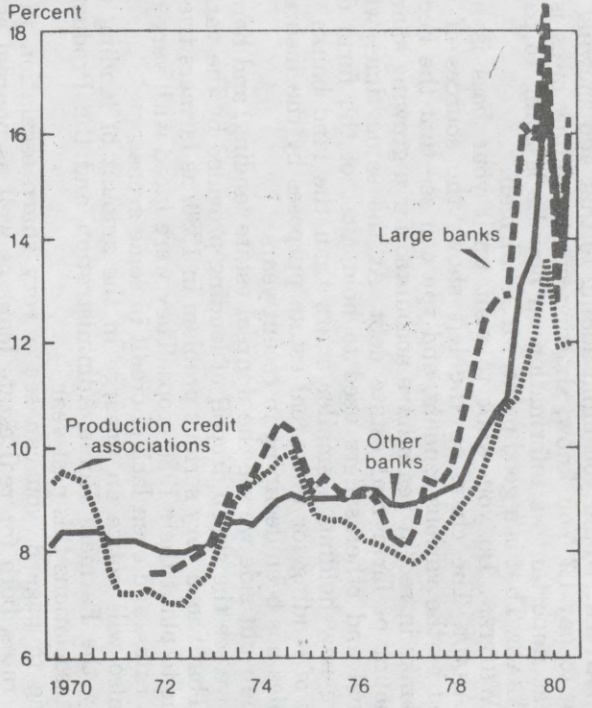
[The charts referred to follow:]

Interest Rates on Farm Real Estate Loans



Quarterly data for life insurance companies (new commitments) and Federal Land Banks (new loans). Semiannual data for seller financed. Federal Land Bank rates do not include charge for the stock borrowers are required to buy.

Interest Rates on Nonreal Estate Farm Loans



Rates on PCA loans include service fees. Bank data starting in 1977 are from surveys made by the Federal Reserve System. The data for prior years relate to different groupings of banks, collected by the Federal Reserve System and the Federal Reserve Bank of Minneapolis.

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Yearly Average Interest Rates on Farm Loans

Item	1970	1975	1976	1977	1978	1979	Preliminary 1980
Nonreal estate*	8.89	9.25	8.87	8.46	9.47	11.81	14.52
Production Credit Assn.	9.45	9.13	8.35	7.90	8.75	10.58	12.73
Large banks	NA	9.60	9.13	8.55	10.25	13.60	15.88
Other banks	8.33	9.03	9.13	8.93	9.40	11.26	14.95
Real estate*	9.01	8.79	8.73	8.49	8.64	9.41	10.95
Seller financed	NA	7.60	7.70	7.80	7.95	8.50	9.10
Federal land banks	8.68	8.73	8.68	8.35	8.38	9.20	10.40
Life insurance companies	9.33	10.03	9.80	9.33	9.58	10.53	13.35

*Arithmetic average, not weighted.

Mr. AHALT. In terms of the righthand chart, a very sharp rise in interest rates in early 1980 eased by mid-year, but began to come back up in late 1980 and are now at very high levels again. But in talking to the various lenders and lending institutions, the feeling is that credit for planting 1981 crops will be more readily available than it was in 1980.

Unfortunately, interest rates again are going to be extremely high, and moreover, the very hot, dry weather that hurt U.S. farmers in 1980 means that a lot of farmers are really being squeezed and will have to borrow more than normal in order to plant their 1981 crops.

Fortunately, there does seem to be money available, but again at very high interest rates.

Mr. WATKINS. Mr. Chairman, I would like to make a point.

Mr. WHITTEN. Mr. Watkins.

Mr. WATKINS. Has this particular point been made to the chairman of the Federal Reserve Board, Paul Volcker, who has the distinction of having control? Going into this period of time with high interest rates and the planting season, I don't know if the farmers can survive another year of drought plus high interest rates. And I was just wondering, if they made that point.

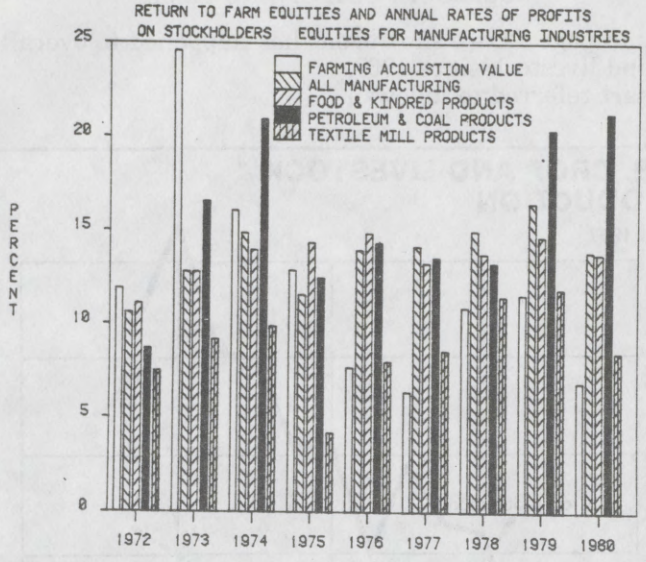
Mr. AHALT. We have had discussions and made this clear to people on the Federal Reserve Board staff, sir. And I believe that they have transmitted that information to Mr. Volcker. We try to keep in contact with the Board on the overall credit system and how the impact is felt by agriculture.

Mr. WATKINS. Thank you.

RETURNS ON FARM AND NONFARM INVESTMENT

Mr. AHALT. Moving to page 9, I call your attention to the table, because I know that this information has always been of interest to this committee.

[The chart referred to follows:]



Year	Farming: Current value	Farming: Acquisition value	All manufacturers	Food and kindred products	Petroleum and coal products	Textile mill products
	Percent					
1972	5.6	11.9	10.6	11.1	8.7	7.5
1973	11.0	24.6	12.8	12.8	16.6	9.2
1974	6.2	16.1	14.9	14.0	21.0	9.9
1975	5.1	12.9	11.6	14.4	12.5	4.2
1976	2.9	7.7	14.0	14.9	14.4	8.0
1977	2.2	6.4	14.2	13.3	13.6	8.6
1978	3.8	10.9	15.0	13.8	13.3	11.5
1979	4.1	11.6	16.5	14.7	20.4	11.9
1980	2.4	6.9	13.9	13.8	21.3	8.5

Manufacturing returns are after corporate taxes have been deducted. Returns are based on acquisition cost. Data are taken from various issues of the Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, Federal Trade Commission. Returns to farm equity were calculated by Bruce Hottel, USDA. All estimates for 1980 are preliminary.

Mr. AHALT. This chart attempts to compare the returns from farming along with the returns that stockholders get from investing in various manufacturing industries.

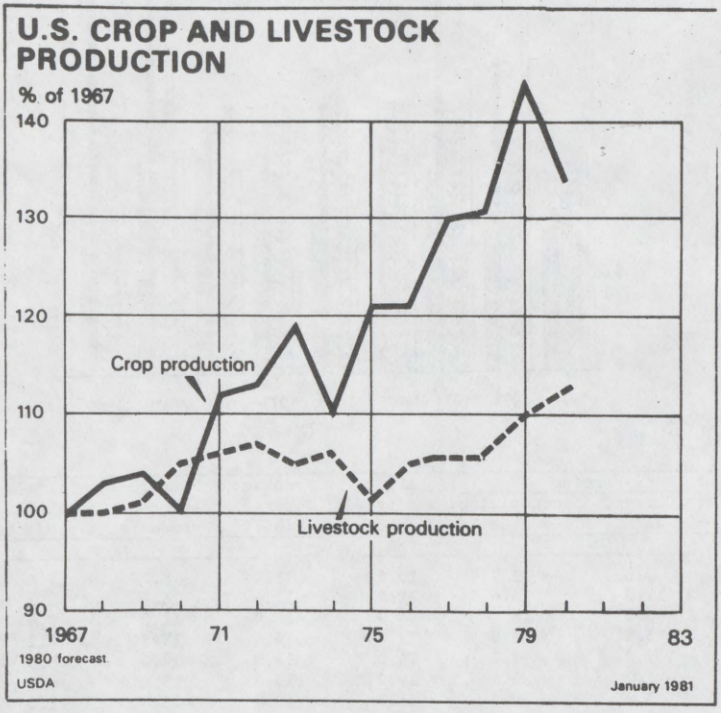
We look at the returns from farming under two methods, calculating the returns by looking at farm assets at their current value and at the acquisition value. In both cases, those returns for 1980 lag below the returns from investment in stocks in the various manufacturing industries.

If you make the comparison on an acquisition value back over time, that same trend does not always hold. In some years returns are greater to farming, and this is a better comparison, since returns for the manufacturing industries are calculated on an acquisition basis.

AGGREGATE OUTPUT AND PRICES

Moving to page 12, we show what has happened to overall output of crops and livestock since 1967.

[The chart referred to follows:]



	1970	1975	1976	1977	1978	1979	1980
	Percent of 1967						
Farm output	101	114	117	121	122	129	124
Crops	101	121	121	130	131	144	131
Livestock	105	101	105	106	106	110	113

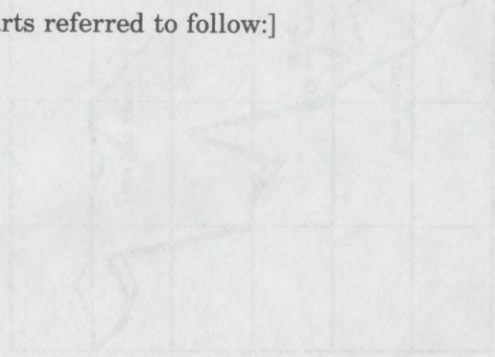
Mr. AHALT. Note the solid black line which measures crop production and shows the very sharp drop that occurred in 1980. We actually had a 9 percent decrease in aggregate crop production. That is a tremendous drop in farm output for this country; over time there have been some dips; but we usually have been able to generate stable production on a year-to-year basis.

Livestock production this past year increased about 3 percent, but the overall output, if you combine these two, was actually down some 4 percent from the previous year.

Again, all of the drop in crops came from the hot, dry weather which damaged yields because farmers actually planted more land last year than in the previous year.

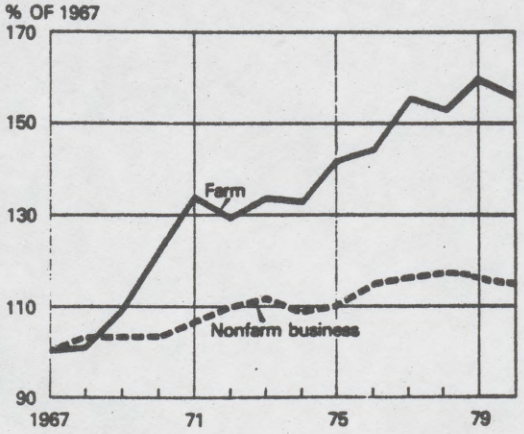
On page 13, we take the output one more step and calculate the output in terms of labor input and compute what we call productivity.

[The charts referred to follow:]

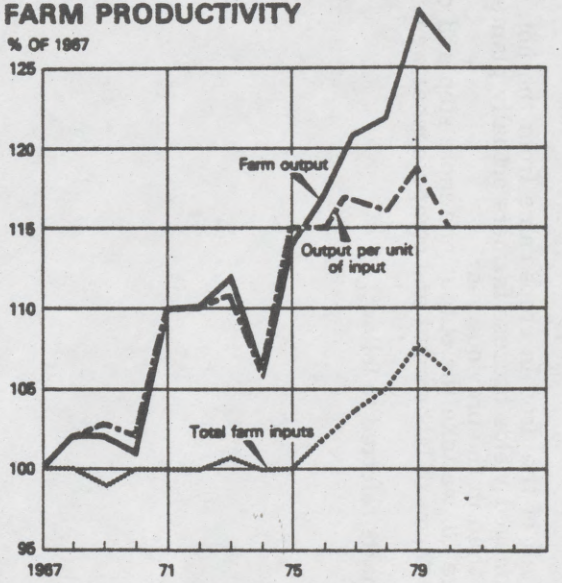


FARM OUTPUT AND PRODUCTIVITY

OUTPUT PER MAN-HOUR, FARM AND NONFARM BUSINESS



FARM PRODUCTIVITY



1980 Forecast.

USDA/ESS

JANUARY 1981

	1975	1976	1977	1978	1979	1980 1/
			--- Percent of 1967 ---			
Farm output	114	117	121	122	129	124
Crop	121	121	130	131	144	131
Livestock	101	105	106	106	110	113
Farm inputs	100	103	105	105	108	106
Output per man-hour						
Farm	143	144	156	153	160	155
Nonfarm business	111	114	116	117	116	115

1/ Preliminary.

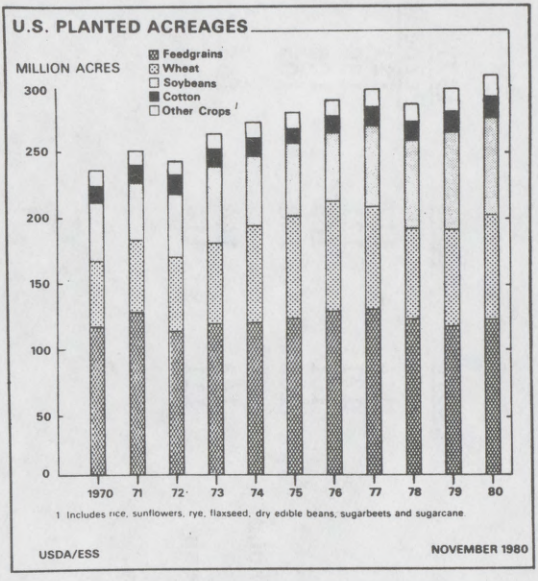
Mr. AHALT. The lefthand chart shows farm output per manhour compared with output per manhour in nonfarm businesses. You can see that gains in output per manhour in farming year after year have run much larger than what has occurred in nonfarm businesses.

Unfortunately, last year we saw a very sharp drop again with output declining because of the drought, pulling down the output per manhour.

The right side of the chart looks at farm output per unit of input, if you calculate the comparison on all inputs, rather than just manhours.

Turning to page 14, we show what has happened to planted acreages in the United States for feed grains, wheat, soybeans, cotton and other crops. Just in the past decade the amount of acreage planted to these crops increased sizeably, from 232 million acres up to almost 300 million this past year.

[The chart referred to follows:]



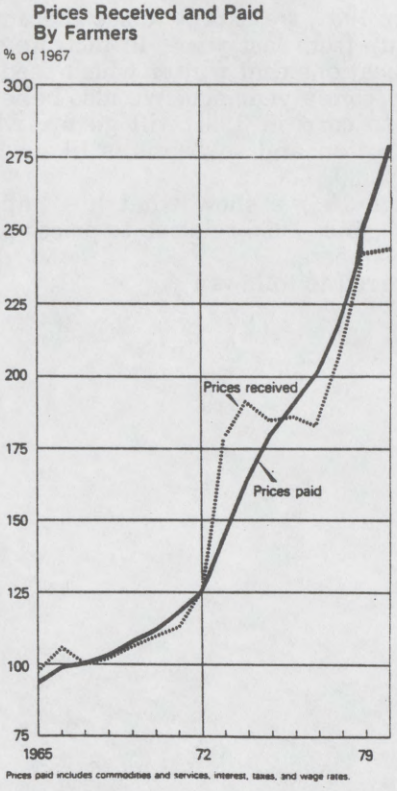
	1970	1975	1976	1977	1978	1979	1980
			- - - Million acres - - -				
Feedgrains	118.8	122.6	128.6	129.4	124.3	118.8	121.7
Wheat	48.7	74.9	80.4	75.4	66.0	71.4	80.4
Soybeans	43.1	54.6	50.3	59.0	64.7	71.6	70.1
Cotton	11.9	9.5	11.6	13.7	13.4	14.0	14.6
Other crops	9.8	10.3	9.0	10.3	11.1	13.8	12.9
Major crop plantings, total 1/	232.3	271.9	279.9	287.8	279.5	289.6	299.7
Set-aside & diverted	57.1	2.4	2.1	1.0	17.0 3/	11.8 2/	---

1/ Includes corn, sorghum, barley, oats, wheat soybeans, cotton, rice sunflowers, rye, flaxseed, dry edible beans, sugarbeets, and sugarcane. 2/ Does not include 1.2 million acres of wheat in special grazing and hay program in 1978 and an estimated 0.9 million in 1979.

Mr. AHALT. For 1981, we expect to see the amount of wheat that is planted to go up from last year—in fact, up sizeably because we already have indications that winter wheat seedings have increased about 11 percent from a year ago. We also believe that the amount of land planted to corn in 1981 will go up, while the amount of land planted to cotton and soybeans is likely to decline from the levels planted in 1980.

Turning to page 15, we show what has happened to prices received by farmers since 1965 relative to prices paid, illustrating the classic price-cost squeeze.

[The chart referred to follows:]



	1973	1974	1975	1976	1977	1978	1979	1980
			- - -	Percent of 1967		- - -		
Prices received (all commodities):	179	192	185	186	183	210	241	245
Crops	175	224	201	197	192	204	223	239
Livestock products	183	165	172	177	175	217	257	251
Prices paid	144	164	180	191	202	219	250	280
Wage rates	155	178	192	210	226	242	265	286
Machinery 1/	137	161	195	217	238	259	289	323
Energy and Fuels	116	159	177	187	202	212	276	380
Fertilizer	102	167	217	185	181	180	196	243

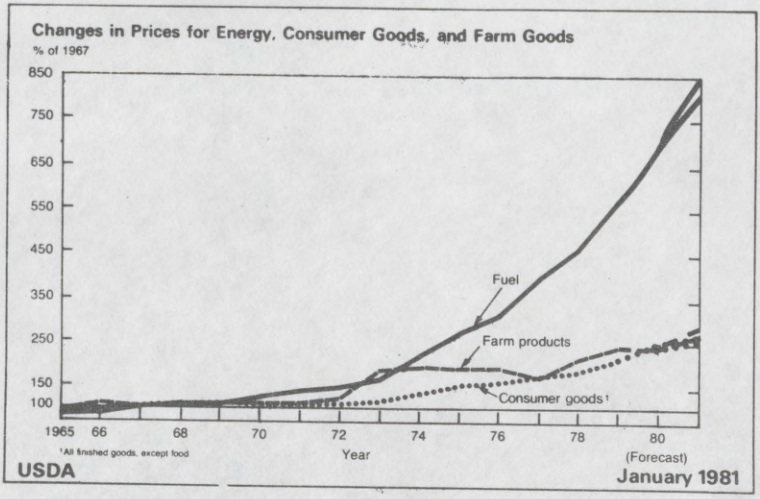
1/ Tractors and self-propelled machinery.

Mr. AHALT. The dotted line shows the index of prices received by farmers; the black line, the index of prices paid. And we can note some interesting comparisons.

One is that the index of prices paid goes up every year, while the prices received by farmers some years go up very little, and some years they actually decline. In 1980, we saw this squeeze tighten because prices received by farmers went up only about 2 percent, while the prices paid by farmers went up 12 to 13 percent from the previous year.

Turning to page 16, you'll find a similar comparison. Again, we see prices for farm products compared with prices for consumer goods.

[The chart referred to follows:]



Item	1965	1970	1975	1977	1978	1979	1980	1981 1/
Producer Price Index:								
Consumer goods 2/	96	108	153	172	184	208	249	268-274
Fuel	94	123	272	400	464	568	710	815-850
Prices received for all farm products	98	110	185	183	210	241	245	275-290

1/ Forecast. 2/ All consumer goods, except food.

Mr. AHALT. What has happened to fuel prices is a big problem and a big concern to farmers. These increases have been substantial, up much more rapidly than the prices that farmers received for their products.

U.S. AGRICULTURAL EXPORTS

The U.S. export picture and a look at the international side of agriculture begin on page 17. I won't go through the details of the

table on page 17 except to say that 1980 was a dismal year in terms of economic performance, not only in the United States, but throughout most of the Western world. Economic activity either declined or was very sluggish, and inflation increased at a tremendous rate.

[The chart referred to follows:]

Country/area	Change in real gross national product			Change in consumer price index		
	1979	Prelim. 1980	Forecast 1981	1979	Prelim. 1980	Forecast 1981
	---- Percent ----					
United States	3.2	-0.1	0.5	11.3	13.5	10.4
USSR	2.0	2.5	2.5	---	---	---
East Europe	1.7	1.4	1.7	---	---	---
EC-9	3.5	1.3	1.5	8.7	11.8	11.0
Japan	6.0	5.0	5.0	3.5	8.0	8.0
Canada	2.8	0.6	2.0	9.2	11.0	10.0
Australia	2.5	2.5	3.0	9.0	10.5	10.0
South Africa	3.2	7.5	5.5	14.2	14.0	15.0
Brazil	6.5	6.5	5.0	77.0	95.0	50.0
Argentina	8.0	5.0	5.0	140.0	90.0	50.0
India	3.0	5.0	4.0	8.6	13.0	12.0
LDC's:						
Asia	3.3	5.4	5.0	14.1	16.1	15.0
Latin America	6.5	5.8	5.5	59.0	56.0	45.0
OPEC	0.1	-3.9	---	17.0	20.7	---
OECD	3.4	1.3	1.4	8.5	11.3	11.0

Source: Consensus Forecasts in early 1981.

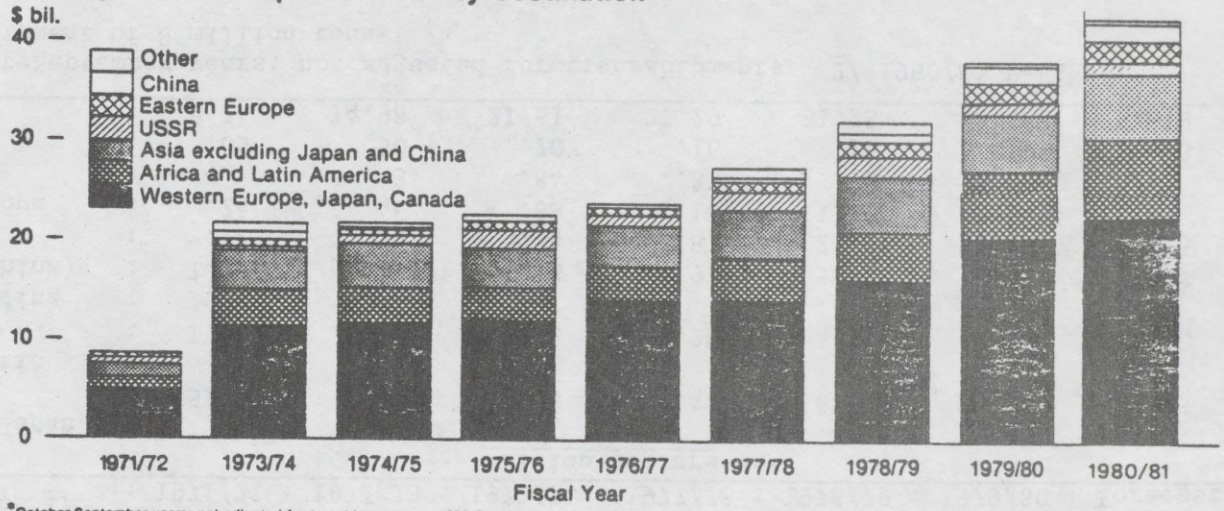
--- = Not available.

Mr. AHALT. For 1981, we expect to see output improve in the United States and believe that inflation, while it will continue to be a problem, will not go up quite as much as it did in 1980.

On page 19, we show the performance of U.S. agricultural exports. Here you see a tremendous growth in exports of U.S. farm products since the 1971–72 period.

[The charts referred to follow:]

U.S. Agricultural Exports: Value by Destination*



*October-September years; not adjusted for transhipment. 1980 Forecast.

USDA/ESS

JANUARY 1981

Destination 1/	1971/72	1972/73	1973/74	1977/78	1978/79	1979/80	1980/81 Forecast
	--- Billion dollars ---						
W. Europe, Japan & Canada	5.00	8.45	11.44	14.46	16.57	20.17	23-25
Africa & Latin America	1.05	1.75	3.58	4.38	4.91	7.76	8-10
Asia (excluding Japan & China)	1.63	2.43	4.03	4.91	5.72	6.51	7-9
USSR 2/	.27	.96	.34	1.87	2.18	1.46	1.6
Eastern Europe	.24	.46	.68	1.14	1.52	2.44	2-3
China	0	.43	.84	.37	.92	1.96	2-3
Other	.05	.50	.70	.16	.16	.19	.1-.3
Total	8.24	14.98	21.61	27.29	31.98	40.48	47-49

1/ October-September years; not adjusted for transshipments. 2/ 1980/81 Forecast based on shipment of 8 million tons

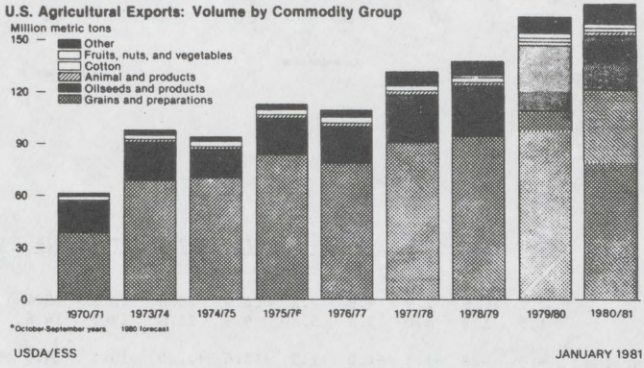
Mr. AHALT. In 1980–81, we estimate that U.S. agricultural exports will total between $47 and $49 billion. That, of course, will be by far a new record over last year's $40.5 billion.

As you can see from the chart, the major market for U.S. agricultural products continues to be what we call the developed market economies—Western Europe, Japan and Canada. But I would call your attention to two segments in the chart that are growing tremendously, the African and Latin American markets. These are regions where economic growth is occurring very rapidly along with the Asian market—excluding the two largest markets, Japan and China. That part of the world is becoming a tremendous user of U.S. farm products. And then, of course, we have the Soviet Union, Eastern Europe, and China itself.

On page 20, we view U.S. exports in a different way. The previous chart looked at the value of these commodities shipped abroad. On page 20, we see the volume of commodities shipped each year.

For 1980–81, we are expected to move almost 170 million tons of U.S. farm products, almost three times what we were moving out of this country 10 years ago. The bulk of these products moved abroad are grains, followed by oilseeds, then cotton and animal products.

[The chart referred to follows:]



Commodity group 1/	1970/71	1972/73	1973/74	1977/78	1978/79	1979/80	1980/81 2/
			---Million metric tons---				
Grains & preparations	39.9	78.6	68.8	92.0	95.4	112.3	119.6
Oilseeds & products	17.4	18.9	21.9	28.0	29.4	35.6	31.5
Animals & products	1.6	1.4	1.6	2.1	2.0	2.4	2.5
Fruits, nuts, veg.	1.9	2.4	2.5	2.9	2.8	3.1	3.3
Cotton	.9	1.2	1.2	1.3	1.3	2.0	1.2
Other 3/	1.6	1.9	1.8	5.6	6.5	8.5	11.2
Total	63.2	104.4	99.9	131.9	137.4	163.9	169.3

1/ October-September years. 2/ Forecast. 3/ Includes feed and fodders.

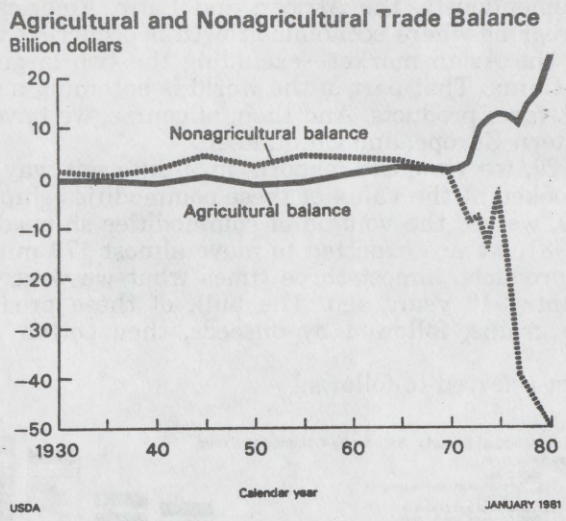
Mr. AHALT. In this past decade, 70 to 75 percent of the growth in our exports has really been in grain to provide better diets, both in terms of more food grains to the world as well as more feed grains

for much of the world to produce more meat, milk and eggs to upgrade diets.

BALANCE OF TRADE

Another way to look at this performance is to look at the trade balance, shown on page 21.

[The chart referred to follows:]



Calendar Year

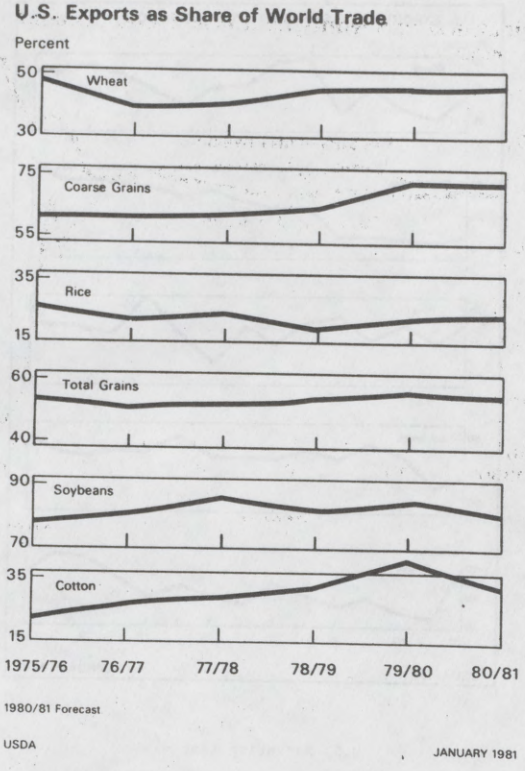
	1930	1940	1950	1960	1970	1975	1976	1977	1978	1979	1980
	--- Billion dollars ---										
Agricultural:											
Exports	1.2	.5	2.9	4.8	7.3	21.9	23.0	23.7	29.4	34.7	41.0
Imports	1.5	1.3	4.0	3.8	5.8	9.3	11.0	13.5	14.8	16.7	17.4
Balances:											
Agricultural	-.3	-.8	-1.1	+1.0	+1.5	+12.6	+12.0	+10.2	+14.6	+18.0	+23.6
Nonagricultural	+1.0	+2.1	+2.5	+4.4	+1.3	-2.8	-20.7	-40.0	-46.4	-46.7	-50.0

Mr. AHALT. Here we compare the agricultural trade balance with the nonagricultural balance. We went back to 1930 when these were fairly stable. But beginning about 1970, the United States began to generate a tremendously larger agricultural trade balance, because our exports rose very rapidly, while our imports went up only modestly.

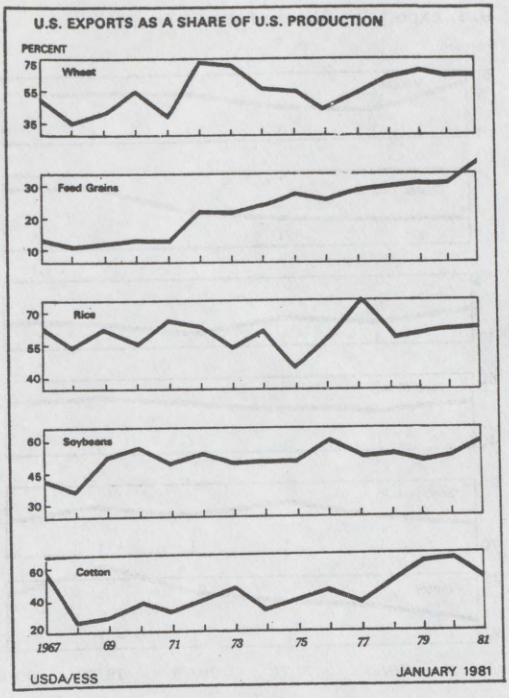
In 1980, we generated a $23.6 billion agricultural trade balance. The problem has been, of course, that our nonagricultural sector has gone the other way. Here, the value of our imports, pushed up by expensive oil, has greatly exceeded the value of our nonagricultural exports and caused a negative trade balance that exceeds the positive side generated by agriculture

I am going to skip the charts on pages 22 and 23—These are self-explanatory—and ask you to turn to page 24.

[The charts referred to follow:]



Commodity	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
				---Percent---			
Wheat	36	48	41	43	45	43	45
Coarse grains	42	61	61	62	63	72	72
Rice	19	23	22	24	19	23	24
Total grains	36	53	51	52	53	56	57
Soybeans	62	78	81	86	82	85	81
Cotton	22	17	27	29	31	40	28

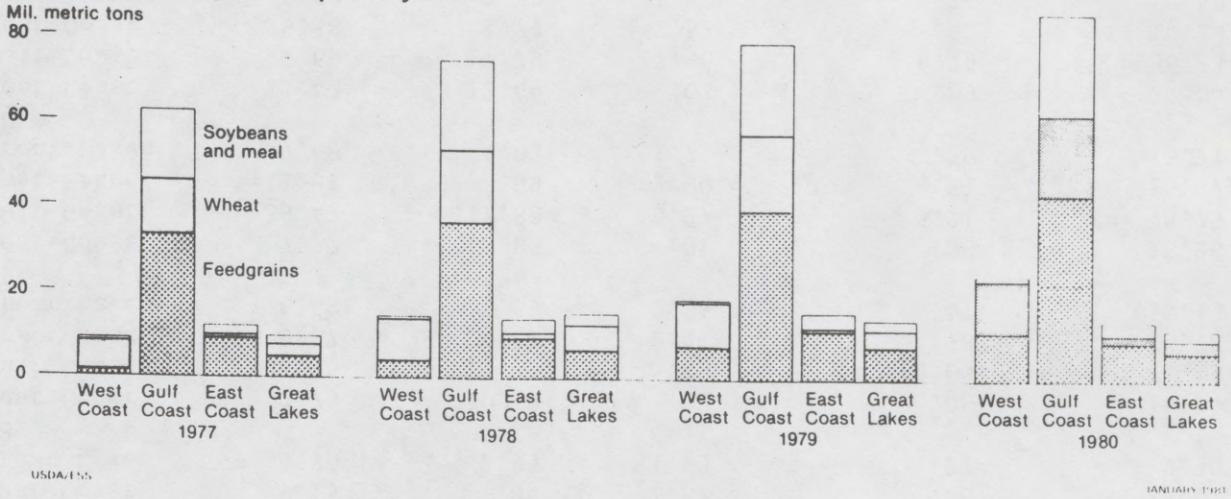


U.S. Marketing Year 1/

Commodity	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
			---Percent---				
Wheat	54	55	44	55	67	64	64
Feed grains	13	27	26	28	27	30	37
Rice	55	43	56	73	56	63	65
Soybeans 2/	59	50	59	54	54	53	59
Cotton	38	40	45	38	57	63	50

1/ Production is in first year of marketing year. 2/ Exports include soybean equivalent of meal exports.

U.S. Grain and Soybean Exports by Port



USDA/ERS

JANUARY 1981

Calendar Year/Port	Feedgrains	Wheat	Soybeans	Soybean oilcake and meal	Total
			-Million metric tons-		
1977					
West Coast	1.14	7.11	.03	.06	8.34
Gulf Coast	33.10	12.92	12.61	3.59	62.22
East Coast	9.15	.84	1.82	.26	12.07
Great Lakes	4.80	2.95	1.73	.22	9.70
1978					
West Coast	3.75	10.19	.02	.08	14.04
Gulf Coast	36.25	17.09	15.73	5.06	74.13
East Coast	9.37	1.22	2.41	.78	13.78
Great Lakes	6.59	5.59	2.54	.41	15.13
1979					
West Coast	7.32	10.85	.01	.08	18.26
Gulf Coast	39.47	17.80	16.27	5.21	78.75
East Coast	11.37	.69	2.90	.51	15.47
Great Lakes	7.68	4.03	1.71	.29	13.71
1980					
West Coast	11.43	12.49	.03	.09	24.04
Gulf Coast	44.69	17.79	17.56	6.29	86.33
East Coast	9.58	1.77	2.52	.41	14.28
Great Lakes	6.88	3.69	1.67	.24	12.48
1980 TOTAL 1/	72.58	35.75	21.78	7.02	137.13

1/ Includes small amounts from other ports.

SHIPPING OF FARM EXPORTS

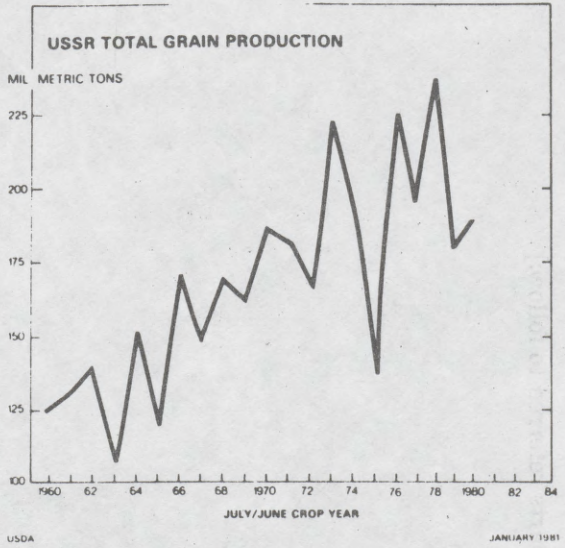
Mr. AHALT. Here we see some changes that are occurring in terms of U.S. exports for feed grains, wheat, soybeans and meal by the four principal ports in the United States, making the comparison from 1977. The Gulf Coast continues by far to be the largest port for shipping out our farm products, but I would like to note for the committee the tremendous growth that has occurred in the West Coast. You see that exports through the West Coast have gone from about 8 million tons in 1977 to more than 24 million in 1980, reflecting the unit trains that are running out of the western Corn Belt to the West Coast. It also reflects the fact that some of the ocean shipping rates into Asian markets are lower on the West Coast, and we are seeing tremendous growth in those ports.

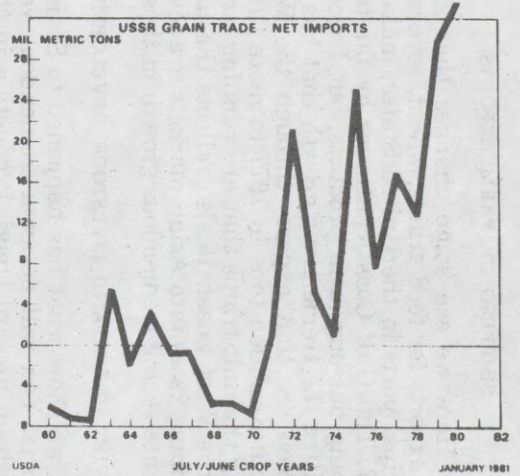
SOVIET GRAIN AND LIVESTOCK DEVELOPMENTS

On page 26, we show what has happened to Soviet grain production and imports. You will notice a tremendous year-to-year variation here, with an upward trend. Production in the Soviet Union fell very sharply in 1979, with very little recovery in 1980.

As a result, the chart on the right shows record imports of grains in the past two years. We are currently estimating the Soviets will take something in the neighborhood of 34.5 million tons of grain in 1980–81.

[The charts referred to follow:]


USSR TOTAL GRAIN PRODUCTION
MIL METRIC TONS
225
200
175
150
125
100
1960
62
64
66
68
1970
72
74
76
78
1980
82
84
JULY/JUNE CROP YEAR
USDA
JANUARY 1981


USSR GRAIN TRADE - NET IMPORTS
MIL METRIC TONS
28
24
20
16
12
8
4
0
4
8
60
62
64
66
68
70
72
74
76
78
80
82
USDA
JULY/JUNE CROP YEARS
JANUARY 1981

Year (July-June)	Production	Trade		Availability 1/	Utilization		Stock Change 2/
		Imports	Exports		Feed	Total	
		(Million Metric Tons)					
			Total Grains 3/				
1972/73	168	22.8	1.8	189	98	187	+2
1973/74	223	11.3	6.1	228	105	214	+14
1974/75	196	5.7	5.3	196	107	206	-10
1975/76	140	26.1	0.7	166	89	180	-14
1976/77	224	11.0	3.3	232	112	221	+11
1977/78	196	18.9	2.3	213	122	228	-16
1978/79	237	15.6	2.8	250	125	231	+19
1979/80 4/	179	31.0	0.8	209	126	225	-16
1980/81 5/	185	34.5	1.0	218	114	220	-2
			Wheat				
1972/73	86	15.6	1.3	100	41	98	+2
1973/74	110	4.5	5.0	109	30	96	+13
1974/75	84	2.5	4.0	82	34	93	-11
1975/76	66	10.1	0.5	76	30	87	-11
1976/77	97	4.6	1.0	100	28	92	+8
1977/78	92	6.6	1.0	98	44	108	-10
1978/79	121	5.1	1.5	125	43	107	+18
1979/80 4/	90	12.0	0.5	102	54	116	-14
1980/81 5/	90	16.0	0.8	105	42	107	-2
			Coarse Grains				
1972/73	72	6.9	0.4	79	53	79	0
1973/74	101	6.4	0.9	106	70	105	+1
1974/75	100	2.7	1.0	101	68	100	+1
1975/76	66	15.6	--	81	56	84	-3
1976/77	115	5.7	2.0	119	78	116	+3
1977/78	93	11.7	1.0	103	74	109	-5
1978/79	105	10.0	1.0	114	79	113	+1
1979/80 4/	81	18.4	--	100	70	102	-2
1980/81 5/	85	18.0	0	103	68	103	0

1/ Availability excludes beginning stocks. Totals may not add due to rounding.
2/ Minus indicates withdrawal from stocks.
3/ Total grain production, trade and utilization figures include pulses, paddy rice, buckwheat, and miscellaneous grains, in addition to wheat and coarse grains.
4/ Preliminary for trade, availability, utilization, and stocks change.
5/ Forecast for production, trade, availability, utilization and stocks change.

Mr. WHITTEN. Now, arriving at these figures about supplies, do you have anything—and we will get it later if you do not have it—on how much of this grain may have been stored on American farms? Is that pretty well depleted? Or do we have large stocks?

Mr. AHALT. I have a chart coming up——

Mr. WHITTEN. Perhaps this will be somewhere else, but do you have the data?

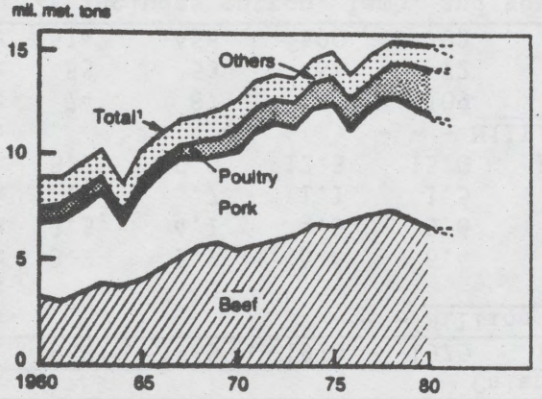
Mr. AHALT. Yes, sir, we have some charts that look at what has happened to grain and grain stocks.

On page 27 you can see what has happened to Soviet livestock production and cattle, hog and poultry numbers.

[The charts referred to follow:]

Soviet Livestock Industry

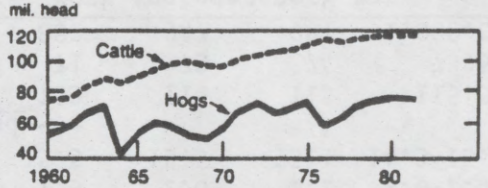
Soviet Meat Production



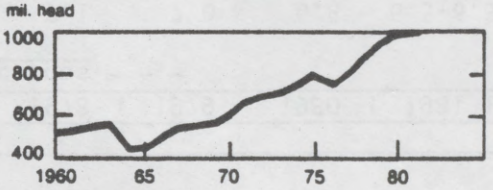
¹Includes beef and veal, pork, mutton and lamb, poultry,, and others. Pork includes pork fat. Mutton and lamb includes goat meat.

••• 1981 Estimated

Soviet Cattle and Hog Numbers¹



Soviet Poultry Numbers¹



¹As of January 1

USDA/ESS

JANUARY 1981

	Calendar								
	1960	1965	1970	1975	1977	1978	1979	1980	1981 1/
	- - - Million metric tons - - -								
Production									
Beef & veal	3.2	3.9	5.4	6.4	6.9	7.1	7.0	6.8	6.5-6.8
Pork	3.3	4.1	4.5	5.6	5.0	5.3	5.3	5.0	4.5-4.9
Poultry	.8	.7	1.1	1.5	1.7	1.9	2.0	2.2	2.0-2.4
Total meat 2/	8.7	10.0	12.3	15.0	14.7	15.5	15.5	15.1	14.3-15.3
Numbers 3/	- - - Million head - - -								
Cattle	74	87	95	109	110	113	114	115	115.5
Hogs	53	53	56	72	63	71	73	74	73.5
Poultry	514	456	590	792	796	882	947	981	1,000.0

1/ Estimates. 2/ Includes mutton, lamb, and goat meat. Pork includes pork fat.
3/ As of January 1.

Mr. WHITTEN. Let me interrupt you a little bit there. It has been quite a long time since I was there, of course, but in Russia they don't keep statistics like we do. Not only that, but judging from history and the experience I had years ago, they make big claims. In Moscow, they have a big cannon built in the 16th century, the biggest in the world, that scared the people to death. It never would shoot, but they were impressed by it.

So, where are we getting our figures on Russia? I mean, they talk big and I know they are dangerous, and all that. But how firm are your estimates on Russian production?

Mr. AHALT. Mr. Chairman, they announce what their production has been at the end of each year.

Mr. WHITTEN. I know they do that, but let me tell you my experience. We went over there and went to one of their big farms. We had given them at that time 5,000 tons of seed corn. I come, as you know, from farm country, and I learned early about farming. I could see that frost had hit their corn when it was in what we call the "roastnear" or tasseling stage, and it had not matured. I asked the manager of this big Soviet farm about the frost, and he said they hadn't had any frost. I said, "I know frost when I see it." He said the frost was last year.

So, according to their figures and their statements about things, they always outdo you on everything. I mean, that was true at that time, and I don't imagine their disposition has changed.

Mr. AHALT. Mr. Chairman, each year the Soviets announce a plan, a figure to show what their planned level of production is, and they have a very difficult time of achieving it. For the year just finished, we estimate they fell 45 million tons below the planned figure on grain.

Mr. WHITTEN. The point I am making is not to question the end result you are talking about but the figures on which we base our conclusions. Do we believe what they tell us? Is there any way that we have to judge their accuracy?

Mr. AHALT. We believe, Mr. Chairman, what they tell us generally about their final production figure. For example, in the year just finished—and I will ask Mr. Cannon to correct me on this if I am wrong—the figure that they reported in terms of grain production was 45 million tons less than what they had planned to produce that year. Now, those are their two figures. And we watch their agricultural performance very carefully to try to evaluate the quality of their numbers. And USDA's Soviet experts tell us that the numbers announced as the final production figures, usually released in January of each year, have historically been reasonably reliable. Dick, would you like to add anything?

Mr. CANNON. Perhaps, Mr. Chairman, in addition to what Mr. Ahalt has said, it would be appropriate to say that it is not easy to check the Soviet statistics during the year. We, of course, have agricultural attachés in the Soviet Union, and experts here in Washington who read every Russian document available to try to check the material.

Mr. WHITTEN. In that connection, I can see how the comparison between the expectations and delivery might be accurate. But my attention has been called by the staff to the AG Magazine Watch,

published by USDA. I quote the second paragraph here: "The Russians are coming to USDA. USDA's credibility apparently stands high with the Kremlin. U.S. News says Soviet officials are sniffing around the USDA. Their mission, obtain updated American projections of Russian crop production based on satellite runs over the Soviet Union. A Kremlin agricultural official admits U.S. information on the country's farm outlook is better than the Kremlin's said the magazine."

Mr. AHALT. Mr. Chairman, the Soviets——

Mr. WHITTEN. Now, they say your estimates are better than their figures.

Mr. AHALT. Well, Mr. Chairman, in this business we will take any compliments we can get. To my knowledge, the Soviets do not make forecasts of their production. We try to make forecasts through the year, using a variety of sources.

Mr. WHITTEN. I think you are missing the point, or maybe you are evading it without meaning to. We make estimates. I am trying to find out based on what.

SOURCES OF DATA ON SOVIET PRODUCTION

Mr. AHALT. We make estimates based on a variety of sources of information.

Mr. WHITTEN. That is a general statement.

Mr. AHALT. We rely heavily on the agricultural counsellor from Mr. Cannon's office who is assigned to the Soviet Union. He is a specialist and has specialists on Soviet agriculture and keeps very careful track of everything possible on what is happening and whatever information he can learn about the crop, sometimes by traveling through the area.

Mr. WHITTEN. I won't pursue this further, because I don't know how you would improve on whatever you do. But I did want to see what was behind it. You may proceed.

Mr. AHALT. Thank you, sir. We use a number of other sources of information, too.

Mr. MCHUGH. Mr. Chairman.

Mr. WHITTEN. Yes.

Mr. MCHUGH. I presume that, as that article indicates, you have information of some description from satellites.

Mr. AHALT. Yes, we do. In addition to the attaché reports, we have in the Department of Agriculture a weather unit that looks at what weather conditions are each day all over the world and tries to translate those into the implications for production.

Also, in the Economics and Statistics Service under Dr. Penn, there is a unit solely devoted to agricultural activity in the Soviet Union and Eastern Europe with specialists there who work totally on what is going on in that region.

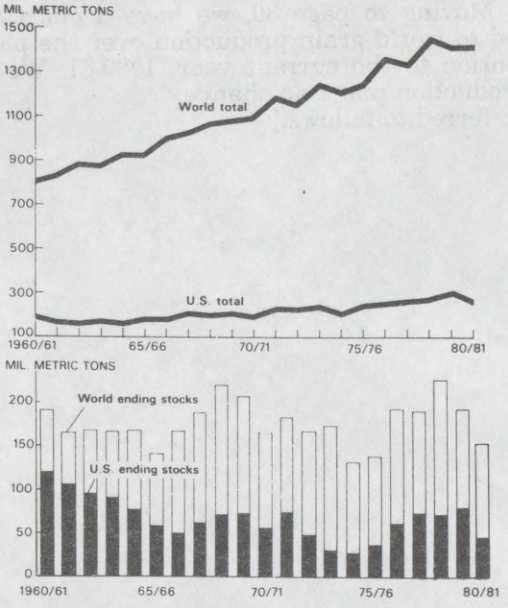
Additionally, the Foreign Agricultural Service has an operation located in Houston that reports to Mr. Cannon which does look at information from satellites. And we use other sources, too. But having done all that, it is still a very crude process, and we are trying, Mr. Chairman, to do everything we can to update it.

Mr. WHITTEN. I just learned a little from our agricultural attaché about the situation.

Mr. AHALT. Moving to page 30, we have a chart that looks at what happened to world grain production over the past 20 years. I call your attention to the current year, 1980-81. We actually saw world grain production make no change.

[The chart referred to follows:]

GRAINS: WORLD AND U.S. PRODUCTION AND ENDING STOCKS°



°Includes wheat, coarse grains, and milled rice

USDA/ESS JANUARY 1981

	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80 1/	1980/81
			---Million metric tons---				
Beginning stocks	205	131	138	194	192	219	190
Production	1,100	1,246	1,362	1,337	1,460	1,414	1,414
(United States)	183	247	256	262	275	301	268
Total supply	1,305	1,377	1,500	1,531	1,652	1,633	1,604
Utilization	1,139	1,238	1,305	1,340	1,432	1,444	1,454
Ending stocks	166	138	194	191	219	190	150
(United States)	55	37	61	74	72	78	47
Stocks/use ratio	14.5	11.1	14.8	14.2	15.4	13.2	10.3
Trade	109	153	157	166	174	199	210

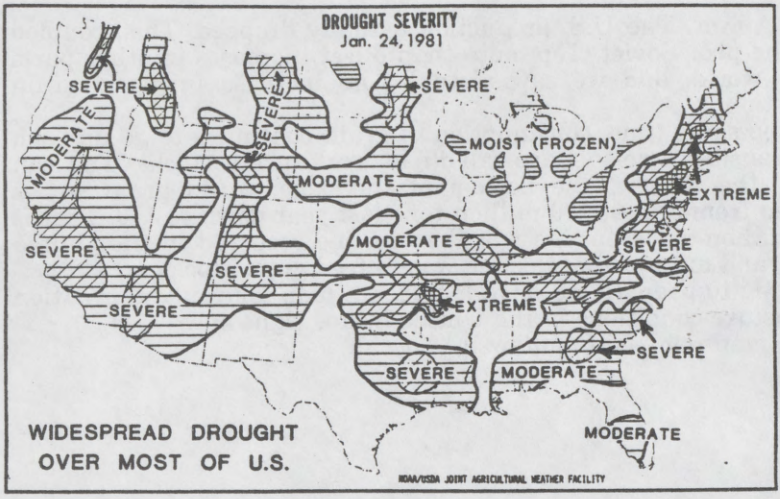
1/ Crop production prospects still uncertain for the Southern Hemisphere; major uncertainties at this point center on utilization and trade.

Mr. AHALT. The U.S. production actually dropped. This, coupled with the poor Soviet crop more than offset increases in other parts of the world, and we saw virtually no increase in world grain production.

At the same time, consumption of grain continues to go up each year, causing a very sharp fall-off in world grain stocks. You can see by the bars at the bottom of the page, world grain stocks dropped from almost 190 million tons last year down to 150. That is a 40 million-ton drop. Most of that decline occurred in the United States, and most of that decline was in feed grain stocks.

Moving to page 31, we have included a map for your information on moisture conditions in the United States right now.

[The map referred to follows:]



The above characterizations are based on Palmer Index readings. The Palmer Index reflects the general soil moisture available as a cumulative departure from the long term average weather conditions. The Palmer Index categories generally describe the degree that moisture may impact crop development or field work as follows:

Palmer Reading	Soil	Agricultural Impact
Severe wetness (Above +3)	Ground saturated.	Delay spring field works, possible flooding.
Moderate wetness (+2 to +3)	Soil moisture at or near capacity.	Possible delay in field work, good crop response when planted.
Near normal (-2 to +2)	Generally satisfactory to favorable moisture.	Near normal crop development.
Moderate drought (-2 to -3)	Generally inadequate soil moisture.	Some crop yield reduction expected.
Severe to extreme drought (Less than -3)	Inadequate soil moisture.	All crops experience yield reduction--some significant reductions.

These readings indicate regions that have a potential for drought-related crop yield reduction. The situation could change rapidly with the beginning of spring rains. Adequate precipitation by late March and in April could eliminate the potential for crop yield reduction from the current dryness.

Mr. AHALT. In addition to a very hot, dry summer, we have had a very dry fall and winter throughout much of the United States. You can see from this map that the meteorologists indicate severe to extreme drought conditions in parts of eastern Texas and Oklahoma; into the central wheat areas, we show moderate to severe drought.

In the southeastern United States, we also show very dry conditions, as are occurring up in the northeastern part. That is not a big agricultural area, but it is very dry and a concern.

It is not time to raise a red flag about this situation, but this country is going to be dependent on moisture—some good rains between March and April—to be able to generate good crops in 1981.

Mr. WHITTEN. Are you doing anything to contact the Man upstairs about that?

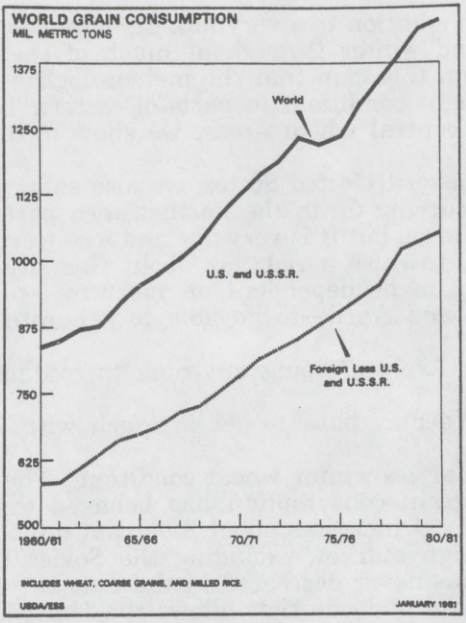
Mr. AHALT. We may have to get in touch with Him soon, Mr. Chairman.

Page 32 summarizes winter wheat conditions. The chart on page 33 shows how grain consumption has behaved over time. On a year-to-year basis, it increases about 3 percent annually. Consumption in the foreign market, excluding the Soviet Union and the United States, has never decreased in the past 20 years. That is a phenomenal record and one that allows the United States to continue enjoying expanding export markets.

[The charts referred to follow:]

Global Winter Wheat Conditions as of January 25, 1981

COUNTRY	GROWTH STAGE	MOISTURE	TEMPERATURE	COMMENTS
USA	Some growth in south	Dry in west-central	Much above normal	No snowcover
EUROPE	Some growth in the west	Dry in Spain	Above normal - W Below normal - E	Some snowcover in the east
W. USSR	Dormant	Good	Above normal	Need more snow in east
CHINA	Mostly dormant	Irrigation required	Below normal	No snowcover
INDIA	Heading	Mostly good	Above normal	- -
NW AFRICA	Vegetative	Mostly good	Near normal	Dry in southern Morocco



	1960/61	1970/71	1972/73	1974/75	1976/77	1977/78	1978/79	1979/80	1980/81 1/
				- - - Million metric tons - - -					
World	836	1,138	1,191	1,217	1,305	1,340	1,432	1,444	1,454
U.S.	138	164	181	141	152	161	181	185	180
USSR	118	188	187	206	221	228	231	225	220
World less U.S., USSR	580	786	823	870	932	951	1,020	1,034	1,054

Includes wheat, coarse grains, milled rice.

1/ Forecast.

Mr. NATCHER. Mr. Chairman, would you yield to me at this point?

Mr. WHITTEN. Yes.

Mr. NATCHER. Mr. Chairman, I want to join with you in welcoming our new members on this subcommittee. These are all able Members of Congress, Mr. Chairman, and they will be of great assistance to this subcommittee.

I have had the honor and distinction, Mr. Chairman, of serving on this subcommittee for 26 years. It has always been a pleasure serving with you, Mr. Chairman. As you know, you always come out good in my journal.

Mr. WHITTEN. Do you have any questions before you go, Mr. Natcher?

Mr. NATCHER. I have no questions. Thank you, Mr. Chairman.

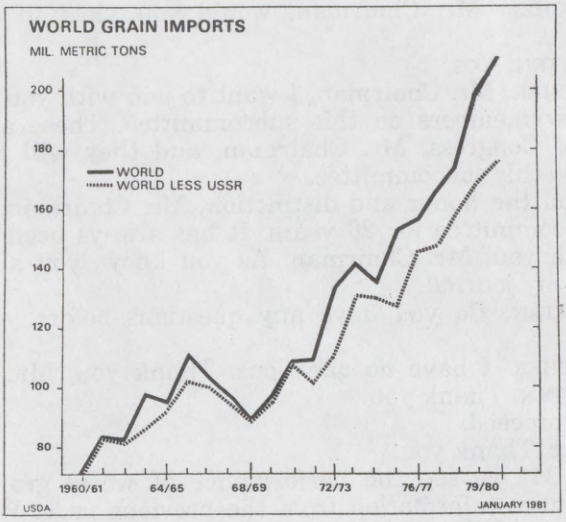
Mr. WHITTEN. Thank you.

You may proceed.

Mr. AHALT. Thank you.

On page 34, we see the performance of world grain imports, which continues information from the previous page. With such a large segment of the world dependent on importing grain, a tremendous upsurge has occurred in the grain trade in the past 20 years.

[The chart referred to follows:]



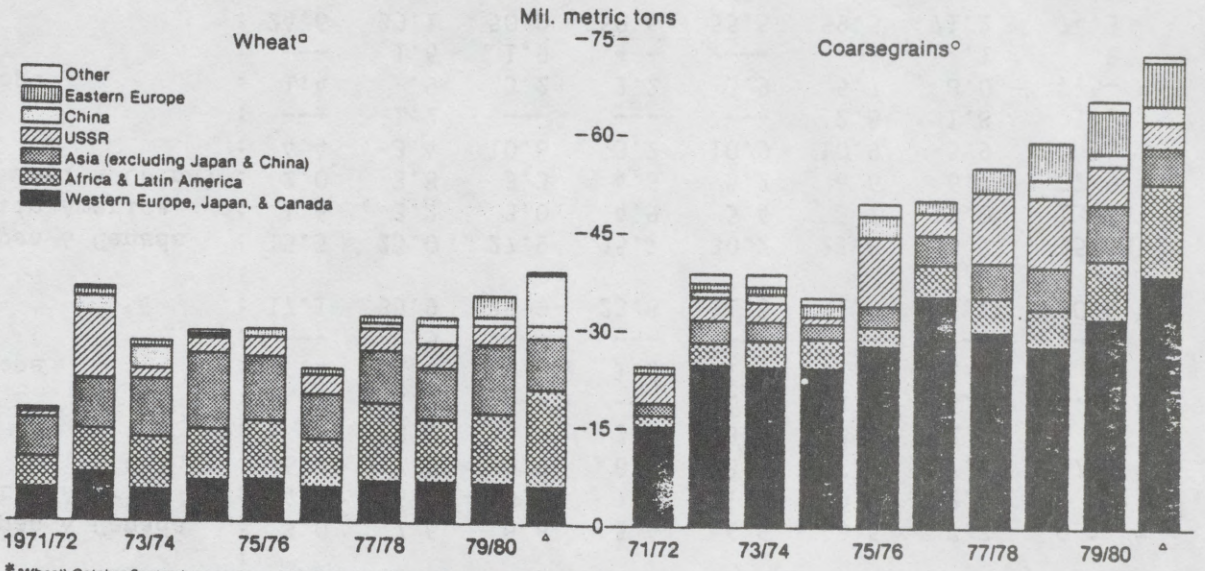
Total Imports 1/	1960/61	1970/71	1972/73	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	--- Million metric tons ---								
World	72	110	134	152	156	166	174	199	210
USSR	1	1	23	26	11	19	16	31	34.5
World less: USSR	71	109	111	126	145	147	158	168	176

1/ July/June marketing year for wheat and coarse grains; calendar year for rice.

Mr. AHALT. Page 35 shows U.S. grain exports, both in terms of wheat and coarse grains, to the various markets of the world. I would make one comparison here to note the tremendous upsurge in the exports of coarse grains or feed grains that have grown much more rapidly than our wheat exports in the past decade, again reflecting world demand for more animal protein.

[The charts referred to follow:]

U.S. Grain Exports: Volume by Destination*



*(Wheat) October-September years; not including wheat flour. (Coursegrains) October-September years.
□ Adjusted for transshipments via Canadian ports except the first and third years. ○ Not adjusted for transshipments through Canadian ports for first 4 years.
△ Forecast.

Destination 1/	1971	1972	1975	1976	1977	1978	1979	Forecast 1980/81 2/
	---Million metric tons---							
Wheat								
W. Eur., Japan & Canada	5.0	7.6	6.6	5.4	6.6	6.5	7.7	6.5- 7.5
Africa & Latin America	4.6	6.5	9.0	7.4	11.7	9.5	12.0	11.5-13.5
Asia (Excl. Jap. & China)	6.2	7.8	9.9	6.9	8.2	7.9	7.2	7-9
USSR	.8	10.1	3.0	3.0	3.4	3.9	2.3	3
China	.1	2.4	---	---	1.0	2.7	4.1	8.5- 9.5
Eastern Europe	.4	1.0	1.4	1.0	1.0	.9	2.8	1
Other	---	.5	---	---	---	---	---	---
Total	17.1	35.9	29.9	23.8	31.8	31.8	36.1	40.0
Coarse grains								
W. Eur., Japan & Canada	15.3	25.0	27.9	35.7	30.2	27.8	35.7	35-38
Africa & Latin America	1.6	3.2	3.0	4.9	5.4	5.7	13.0	13-15
Asia (Excl. Jap. & China)	2.0	3.8	3.3	4.6	5.2	6.6	6.7	7-9
USSR	4.4	3.4	10.6	3.2	10.9	10.9	5.9	5
China	---	1.2	---	---	---	2.8	1.8	1-2
Eastern Europe	1.4	.9	3.2	2.2	3.9	5.7	8.0	7.5- 8.5
Other	---	1.6	1.9	---	---	---	.1	.2
Total	24.6	39.1	50.0	50.6	55.5	59.5	71.2	74.3

1/ Year beginning October 1; not adjusted for transshipments through Canadian ports for 1971-75. 2/ Forecast.

Mrs. SMITH. Mr. Chairman, could I ask a question at this point?
Mr. WHITTEN. Yes, certainly.

EXPORTS TO CHINA

Mrs. SMITH. I noted you said a few moments ago that our exports to China were increasing a great deal, Mr. Ahalt, and I see that they are still such a small, small part of our exports. With some 800 million people over there, how much of an increase do you think we could reasonably look for?

Mr. AHALT. We are estimating that the Chinese will import about 14 to 15 million tons of grain in the current year from all sources. We expect the United States to sell them 9 to 10 million tons.

Mr. MYERS. That is what it was last year. That is what they bought last year.

Mr. AHALT. Yes; for the current year, we believe they will take something in that neighborhood. For 1979, we show them taking about 6 million tons; and we are showing much more for this year.

U.S. officials who have traveled in China believe that the Chinese are letting their system operate more by taking advantage of what they can produce in the various areas and bringing in grain from other sources, if it is to their advantage. Three of my colleagues here at the table were in China this year, and I would be glad to ask them to comment on that, if you would like some indication of the kind of potential.

Mr. CANNON. Mr. Ahalt, I would like to mention that our agricultural consul—Mr. Davidson in China—has recently made a statement saying within the next 5 years potential exists for doubling the exports. Now, that is potential only. It doesn't necessarily mean that this will happen. You, of course, are right when you say there are 800 or 900 million people over there. And when we get started—

Mrs. SMITH. You are saying in 5 years that possibly we could have 16 billion metric tons?

Mr. CANNON. Yes.

Mrs. SMITH. That is all. I just wanted an estimate. That is all you can give anyway.

Mr. CANNON. Perhaps I should let my colleagues refer to any particular view they may have.

Mr. MYERS. If the gentlewoman would yield.

Mrs. SMITH. Surely.

Mr. MYERS. I have been to the P.R.C. a couple of times, too, and it is rare among nations these days to have them concerned how they are going to pay for anything. Most people don't worry about that, here or abroad.

But the experience I have had with the Chinese is the fact, yes, they admit they do have some need, and they hope to be feeding more grain to—I don't think cattle as much as pork, and poultry. They would like to expand, but they are concerned about how they are going to pay for the grain.

Now, I haven't been back—well, I was back since the most favored nation status, but not until they had developed it. Are they using these loans or not? Are they making any arrangements to

use the most favored nation status as far as eligibility for longer term loans?

Mr. AHALT. I don't know the answer to that, Congressman Myers, but we will find that out and report that to you.

[The information follows:]

USDA has had several meetings with high level Chinese officials concerning long-term loans and the eligibility for programing under the Public Law 480 and CCC export credit guarantee programs. We advised these officials that Section 103(J) of the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly called Public Law 480, excludes China from the Public Law 480 sales agreement under Title I. Legislative changes are being considered to eliminate this constraint. Congress approved important credit legislation in 1978 that made China eligible for short-term CCC export credit financing. In our discussions with the Chinese officials, they have declined the program because of the high interest rates prevailing in the United States. The Chinese are looking for interest rates in the range of 3 to 5 percent.

Mr. MYERS. But they were concerned about having to pay for it ultimately.

Mr. AHALT. That is correct.

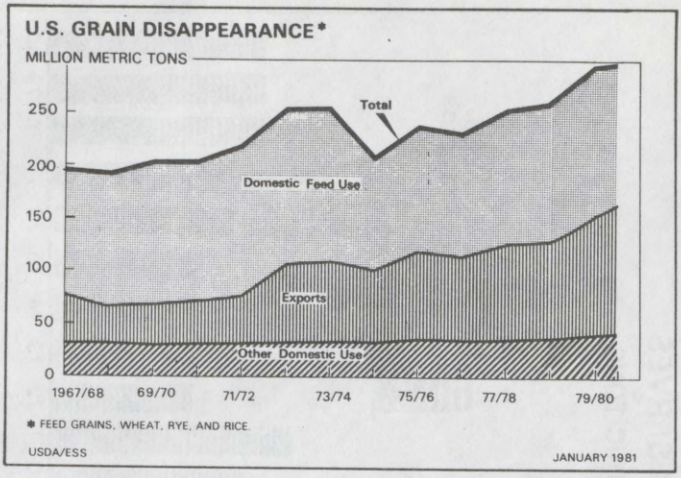
Mr. MYERS. They expressed that a number of times.

Mr. AHALT. Yes, sir.

GRAIN DISAPPEARANCE AND CARRYOVER

Page 36 looks at the disappearance of U.S. grains, and underscores the tremendous growth in exports of U.S. grains. The chart shows that we are actually feeding slightly less grain now in this country than we were back in the early 1970's.

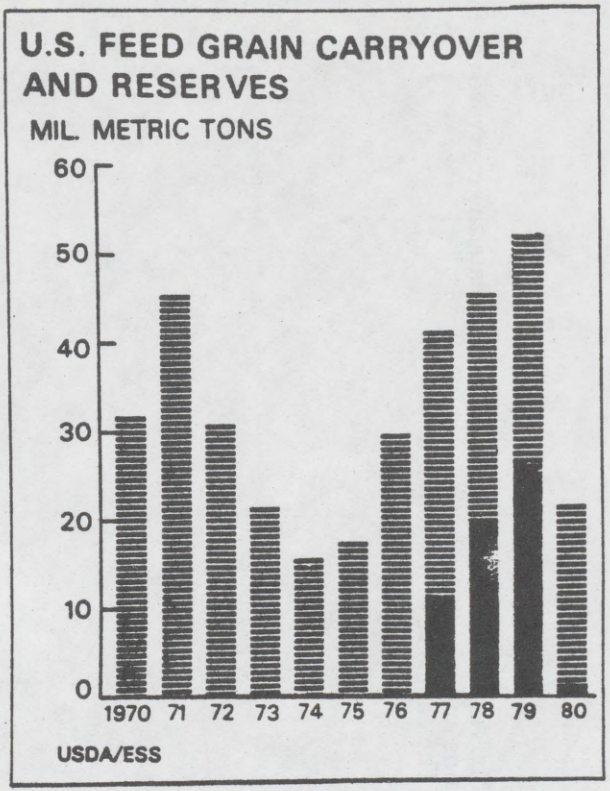
[The chart referred to follows:]

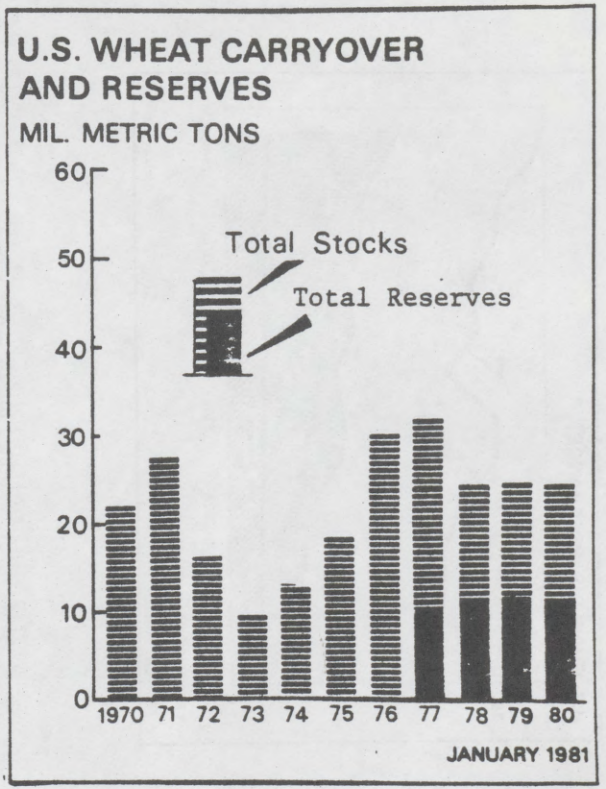


	1970/71	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	- - - Million metric tons - - -								
Feed Use	132	143	106	117	115	124	142	142	135
Other Use	32	34	35	38	38	38	40	43	46
Total Domestic	164	177	141	155	153	162	182	185	180
Exports	40	76	66	84	78	89	95	112	119
Total Use	204	253	207	239	231	251	277	296	299

Mr. AHALT. On page 37, two charts indicate the carryover of feed grains and wheat.

[The charts referred to follow:]


U.S. FEED GRAIN CARRYOVER AND RESERVES
MIL. METRIC TONS
60
50
40
30
20
10
0
1970 71 72 73 74 75 76 77 78 79 80
USDA/ESS


U.S. WHEAT CARRYOVER AND RESERVES
MIL. METRIC TONS
Total Stocks
Total Reserves
60
50
40
30
20
10
0
1970 71 72 73 74 75 76 77 78 79 80
JANUARY 1981

Grains[1/]	1970/71	1971/72	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	--- Million metric tons ---							
Wheat								
Carryover	22	27	18	30	32	25	25	25
FOR[2/]	---	---	---	---	9	11	7	7
Gov. Reserve	---	---	---	---	1	1	5	5
Feedgrains								
Carryover	32	45	17	30	41	46	52	21
FOR[2/]	---	---	---	---	10	16	18	--[3/]
Gov. Reserve	---	---	---	---	1	4	8	1
Total								
Carryover	54	72	35	60	73	73	78	47
FOR[2/]	---	---	---	---	21	27	24	7
Gov. Reserve	---	---	---	---	2	5	13	7

1/ June 1 for wheat, barley, and oats; October 1 for corn & sorghum; August 1 for rice.

2/ Farmer-owned reserve.

3/ Less than 500,000 tons.

Mr. AHALT. The horizontal portion of the bar shows the total stocks of grain. The black part of the bar shows the amount in reserve, either owned by CCC or held in the farmer-owned reserve. Here, Mr. Chairman, the left side of the chart shows the tremendous drop that we anticipate in U.S. feed grain reserves.

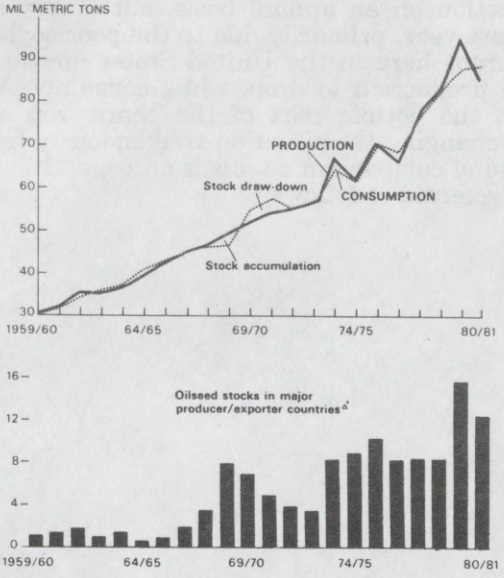
We are projecting a total carryover to end up at the end of the 1980–81 season to be about 21 million tons, compared with 52 last year. In the case of wheat, a wheat crop in 1980 means that we are not expecting much change in the total stock position at the end of the current season.

OILSEEDS OUTLOOK

Moving on to page 40, we show some similar comparisons for oilseeds.

[The chart referred to follows:]

WORLD PRODUCTION, CONSUMPTION, AND STOCKS OF OILSEEDS AND MEALS ON A MEAL BASIS°



°Includes soybean, fish, peanut, sunflower, cottonseed, rapeseed, copra, and palm kernal meals on a 44% soybean meal basis.

△Data prior to 1968/69 U.S. soybean stocks only, later data include all U.S. and Canadian oilseeds, plus soybean stocks in Brazil, Argentina, and Western Europe.

1980/81 forecast

USDA/ESS

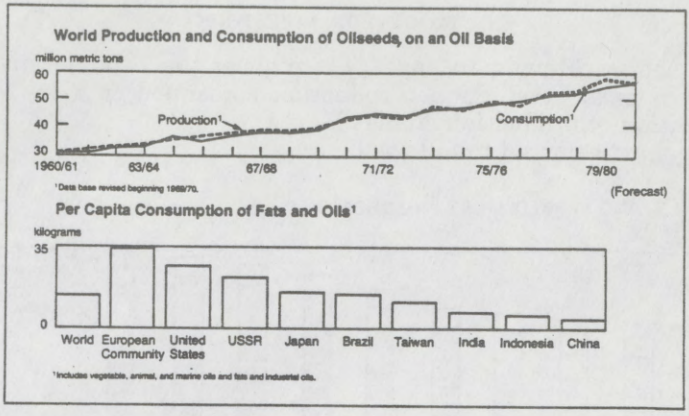
January 1981

Oilseeds & Meals	1970/71	1976/77	1977/78	1978/79	1979/80	1980/81 1/
			---Million metric tons---			
Production 2/	56.0	66.7	78.5	83.3	95.7	86.4
Exports	24.7	33.9	39.1	41.0	46.2	45.0
Consumption	58.0	68.8	78.4	83.3	88.4	89.7
Stock 3/	5.1	8.4	8.5	8.5	15.8	12.5

1/ Forecast; depends largely on outcome of Southern Hemisphere harvests this spring. 2/ Includes soybean, fish, peanut, sunflower, cotton, linseed, rapeseed, copra, and palm meal expressed in terms of 44 percent soybean meal. 3/ Soybean stocks in U.S., W. Europe, Argentina and Brazil plus stocks of all other oilseeds in U.S. and Canada.

Mr. AHALT. Over time, there has been a tremendous increase in oilseed production on an annual basis, but a very sharp drop occurred this past year, primarily due to the poor soybean, sunflower and peanut crops here in the United States due to weather. This caused world production to drop, while consumption continued to move up. On the bottom part of the chart, you see this pulled stocks down, changing the situation tremendously from a year ago. A similar kind of comparison on oils is on page 41.

[The chart referred to follows:]



World Production and Consumption of Oilseeds, on an Oil Basis

	1970/71	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
			---Million metric tons---			
Production	42.1	47.4	52.2	54.2	57.9	56.1
Exports	12.8	16.9	18.3	19.3	20.8	20.9
Consumption	42.2	48.7	52.2	53.4	56.2	56.7
Stocks	2.3	3.7	3.7	4.5	6.2	5.6

Per Capita Consumption of Fats and Oils

World	E.C.	U.S.	USSR	Japan	Brazil	Taiwan	India	Indonesia	China
				--- Kilograms ---					
13.7	34.1	26.1	22.5	15.3	14.5	10.5	6.9	5.3	3.9

Major Oilseeds: World and U.S. Production and U.S. Stocks

Production	1970/71	1976/77	1977/78	1978/79	1979/80	1980/81 1/
			---Million metric tons---			
World total	111.7	127.6	147.3	154.6	174.0	160.5
Foreign	74.9	86.5	90.8	95.8	101.3	103.9
United States	36.8	41.1	56.5	58.7	72.7	56.6
Ending stocks 2/	6.5	11.1	12.3	13.3	23.5	17.6

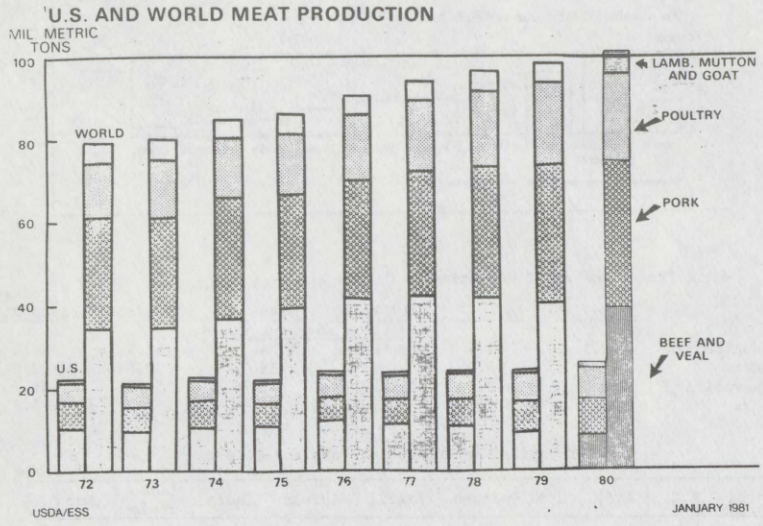
1/ Forecast based on Northern Hemisphere crops already harvested and Southern Hemisphere crops which will not be harvested until spring.

2/ Includes U.S. stocks of all oilseeds, Brazilian and Argentine soybean stocks on September 30, West Europe soybean stocks plus Canadian rapeseed and flaxseed stocks.

*Includes soybeans, cottonseed, peanuts, sunflowerseed, rapeseed, and flaxseed.

Mr. AHALT. Moving to page 44, we show the behavior in world and U.S. meat production. Production continued to rise, but the composition of production changed.

[The chart referred to follows:]



	1972	1975	1976	1977	1978	1979	1980	1981
				Million metric tons				
Beef and veal:								
U.S.	10.4	11.3	12.2	11.3	11.3	9.9	10.0	9.8
World	34.3	39.4	41.4	41.7	41.5	39.5	39.7	39.5
Pork:								
U.S.	6.5	5.3	5.8	6.0	6.1	7.0	7.5	7.1
World	27.1	27.7	27.4	29.0	30.4	32.3	34.7	34.1
Poultry:								
U.S.	4.9	4.8	5.4	5.5	5.9	6.5	6.6	6.9
World	13.2	14.6	16.1	17.1	18.4	19.8	20.8	21.7
Lamb, mutton and goat:								
U.S.	.2	.2	.2	.2	.1	.1	.1	.1
World	4.9	4.8	4.9	4.7	4.7	4.7	4.9	4.9

* Includes the major meat-producing countries except China.

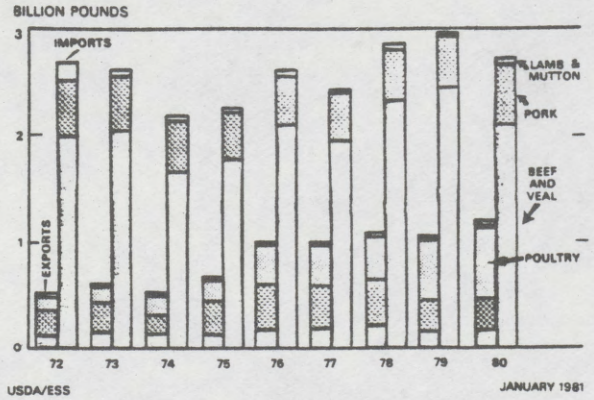
Mr. AHALT. Both in the United States and generally on a world scale, the production of beef peaked around the mid-1970's with the liquidation of cattle herds. Meanwhile, the production of pork and poultry has grown considerably both in absolute and relative terms to the total, to a point where pork and poultry are now making up a growing share of the diet in the United States and in many other major producing countries of the world.

Moving to page 45, the chart on the left shows imports and exports of meat to and from the United States.

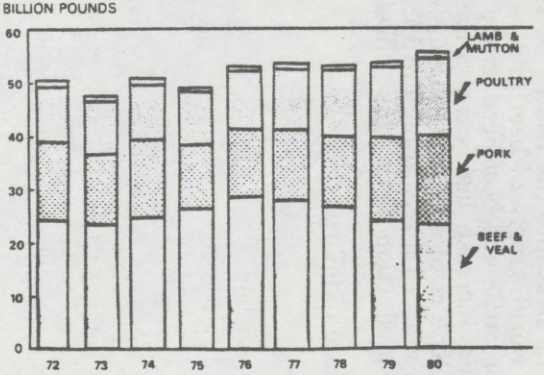
In 1980, imports of meat into the United States declined, primarily due to a tight world supply of beef and veal, and also due to depressed prices for cattle and beef here in the United States. U.S. exports of meat did increase last year, primarily due to larger exports of poultry. The right side of the page shows total consumption of meat which reached a record high in 1980 because increased pork and poultry production more than offset reduced beef and veal production.

[The charts referred to follow:]

U.S. MEAT EXPORTS AND IMPORTS



U.S. MEAT CONSUMPTION



U.S. Meat Exports and Imports

	1979		1980	
	Imports	Exports	Imports	Exports
	---Billion pounds---			
Beef and Veal	2.431	.170	2.071	.175
Pork	.499	.291	.532	.249
Lamb and Mutton	.044	.001	.033	.001
Poultry	0	.503	0	.750
TOTAL	2.974	.965	2.636	1.175

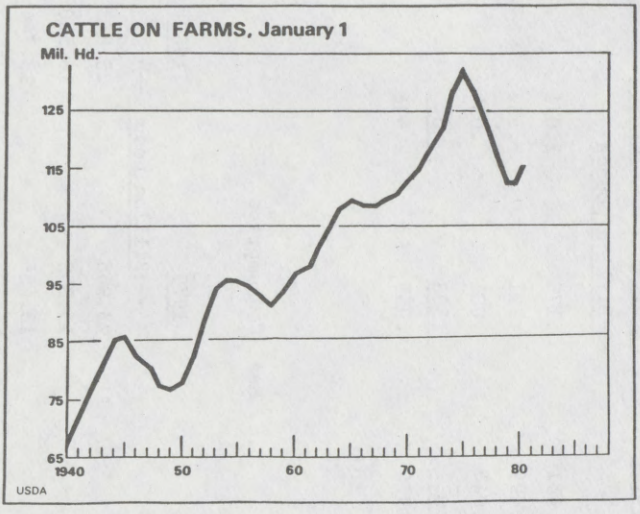
U.S. Meat Consumption

	1979	1980
	---Billion pounds---	
Beef and Veal	23.968	23.863
Pork	15.353	16.560
Poultry	13.456	13.744
Lamb and Mutton	.334	.351
TOTAL	53.111	54.518

Mr. AHALT. On page 46, we see a chart showing what has happened to the U.S. cattle herd. It peaked in 1976, declined until this past year, and for 1981, we estimate about a 3-percent increase in the number of cattle on farms. And it appears that ranchers have taken steps to rebuild their herds. The number of beef cows and heifers that will go into the beef cow herd has been increased relative to a year ago.

So, we believe that steps to rebuild our cattle herd are underway, but we do not believe that it is going to increase as fast as it did during the build-up in previous cycles.

[The chart referred to follows:]



	1940	1950	1960	1970	1975	1977	1978	1979	1980	1981
					Million head					
Cattle on farms	68.3	78.0	96.2	112.4	132.0	122.8	116.4	110.9	111.2	115.0

Mr. WATKINS. Mr. Chairman.

Mr. WHITTEN. Yes.

Mr. WATKINS. Did you take into consideration the high interest rates and the drought?

Mr. AHALT. Yes, we did. And that is one of the reasons we believe that the recovery is going to be much more modest. The numbers on January 1 were less than some people thought, and we believe that the drought has forced a lot more non-fed cattle to slaughter in 1980 than would have otherwise occurred, because much of this country is having trouble carrying cattle due to dryness.

Mr. WATKINS. With a 20 percent interest rate, you can't carry a mama cow and calf operation.

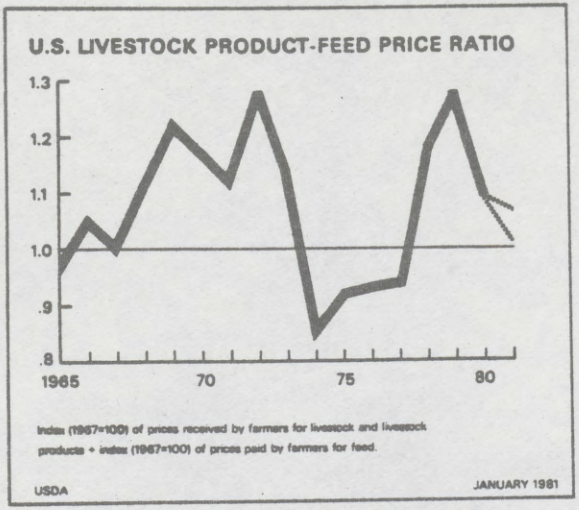
Mr. AHALT. That is correct.

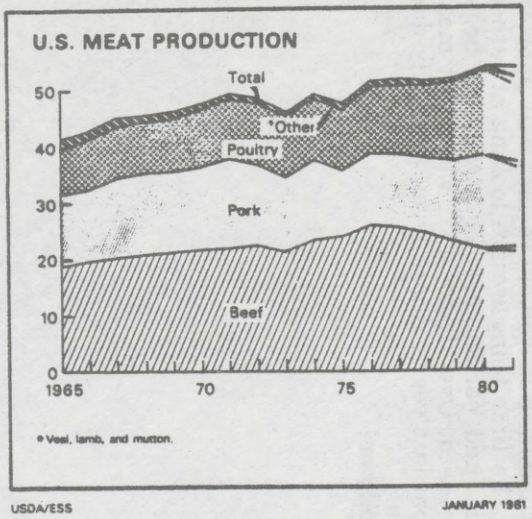
Mr. WATKINS. I just wondered if you had considered that.

Mr. AHALT. Yes, sir, we have.

On page 47, we look at the relationship between livestock, prices for livestock and livestock products and feed prices. You can see that ratio declined sharply last year because of depressed cattle prices. We expect it to decline further in 1981, primarily because of the depressed industry situation. But we believe that will improve later in the year. But for the time being we are looking at rather depressed prices for cattle, and particularly for cattle and hogs, while feed costs have increased. Overall, for 1981 we expect meat production to be down from last year's record level, primarily due to reduced pork production.

[The chart referred to follows:]

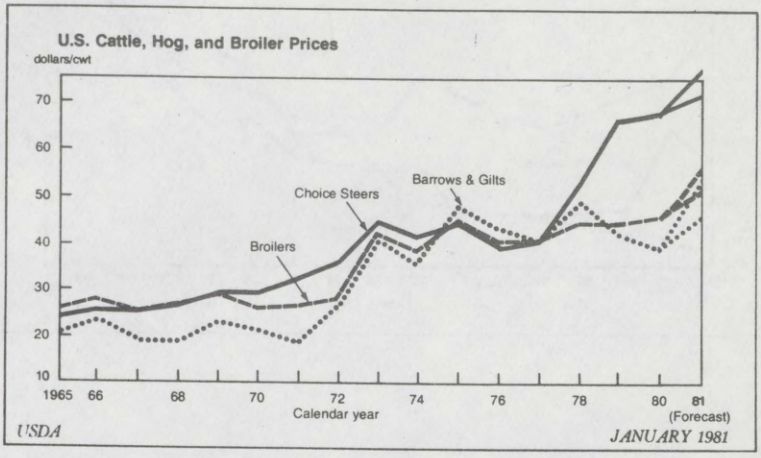




	1965	1970	1975	1976	1977	1978	1979	1980	1981
				---Billion pounds---					
Beef	18.7	21.7	24.0	26.0	25.3	24.2	21.4	21.6	21.1-21.8
Pork	12.8	14.7	11.8	12.7	13.2	13.4	15.4	16.6	15.3-15.9
Poultry	8.1	10.2	10.6	11.8	12.1	12.9	14.3	14.6	14.8-15.3
Other	1.7	1.1	1.3	1.2	1.2	.9	.7	.7	.6-.7
Total	41.3	47.7	47.7	51.7	51.9	51.5	51.9	53.5	51.8-53.4
					---Ratio---				
Livestock/feed price ratio	.97	1.17	.92	.93	.94	1.19	1.26	1.09	1.01-1.07

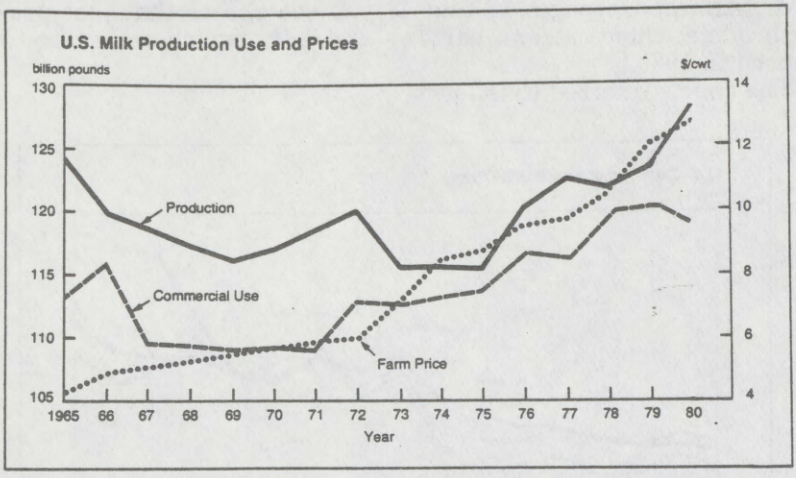
Mr. AHALT. On pages 48 and 49 you see charts that plot prices for broilers, choice steers, barrows and gilts, which were very depressed in 1980.

[The charts referred to follow:]



	Calendar								
	1965	1970	1975	1976	1977	1978	1979	1980 1/	1981
	---Dollars/cwt.---								
Choice steers	24.99	29.36	44.61	39.11	40.38	52.34	67.67	66.96	72-78
Barrows and gilts	21.30	21.95	48.32	43.11	41.07	48.49	42.06	40.01	47-53
Broilers	26.40	26.40	45.10	40.20	40.80	44.50	44.40	46.80	51-57

1/ Forecast.



	1965	1970	1975	1976	1977	1978	1979	1980
			--- Billion pounds ---					
Production	124.2	117.0	115.3	120.3	122.7	121.6	123.6	128.1
Commercial Use	113.9	109.2	113.8	116.4	116.1	118.9	120.4	119.2
			--- Dollars/cwt. ---					
Farm Price	4.23	5.71	8.75	9.66	9.72	10.60	12.00	13.03

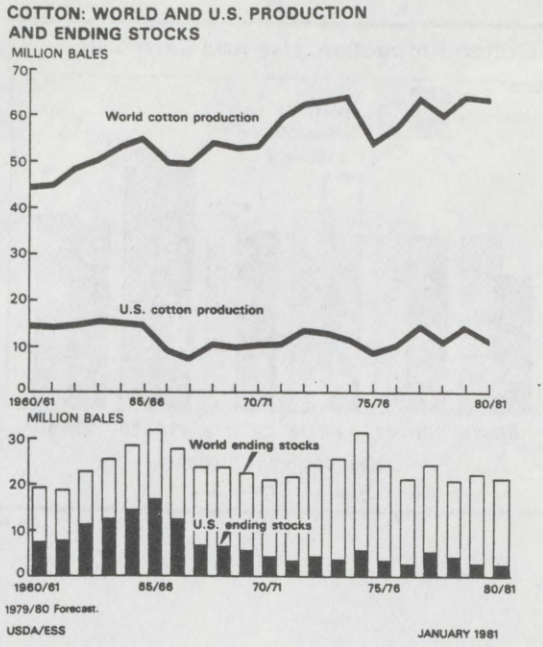
Mr. AHALT. Right now, prices for both cattle and hogs are still depressed. We expect large marketings in this first quarter, but we believe that as we move into the latter part of the spring the heavy cattle will primarily be marketed. The levels of pork production will begin to taper off, and these markets will then strengthen from the current depressed levels.

In the chart on milk production we see milk prices continue to be pushed up. Production is running well above commercial usage, and that had led to the government purchasing large quantities of dairy products in the past year.

COTTON OUTLOOK

Page 51 shows the world cotton picture. It is almost a repeat in terms of direction that I mentioned for grain. Production on a global scale is down a little bit primarily due to the very poor U.S. crop. In fact, for the year 1980-81, the world is going to use more cotton than will be produced. Stocks are going to decline and our exports are going to be off sharply.

[The chart referred to follows:]

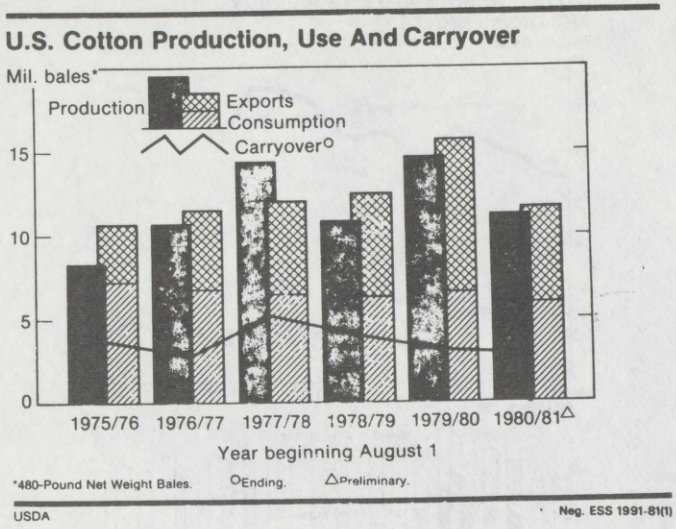


	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81 1/
			---Million bales---				
Production	53.7	54.0	56.8	64.1	60.2	65.7	64.1
Consumption	56.1	61.1	60.6	60.7	62.9	65.4	65.1
Exports	17.7	19.1	17.6	19.2	19.8	23.0	19.9
Ending stocks	20.9	24.0	20.4	24.3	21.7	21.6	20.4

1/ Forecast; Southern Hemisphere crops, which account for 10 percent of global output, are not yet harvested. Global utilization is more uncertain.

Mr. AHALT. On page 52 there is a comparison of the U.S. situation. Again, the production is much smaller than the amount of exports and domestic mill use, which is pulling stocks down.

[The chart referred to follows:]



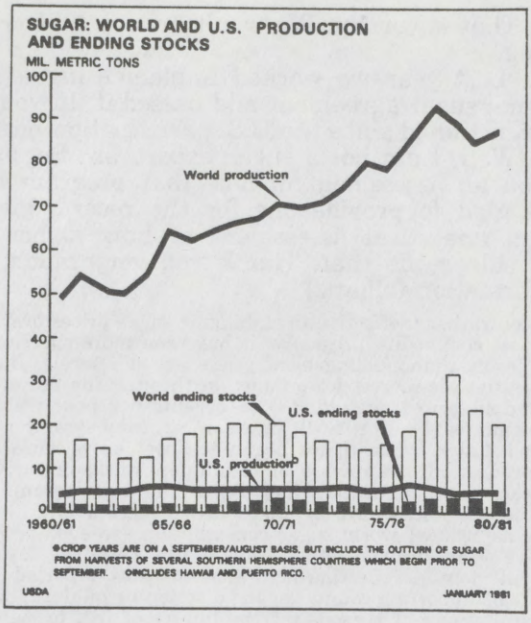
	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
			- - - Million bales - - -				
Production	10.2	8.3	10.6	14.4	10.9	14.6	11.1±0.2
Consumption	8.2	7.2	6.7	6.5	6.4	6.5	6.0±0.2
Exports	3.9	3.3	4.8	5.5	6.2	9.2	5.5±0.5
Ending stocks	4.2	3.7	2.9	5.3	4.0	3.0	2.8±0.6
			- - -Cents/pound- - -				
Farm price	22.9	51.3	64.1	52.3	58.4	63.4	77.1 1/

1/ Weighted average price during the first 5 months of the season. This is not a forecast for 1980/81.

OUTLOOK FOR SUGAR

Mr. AHALT. On page 53, there is a comparison of world and U.S. sugar production and stocks. World production is expected to be up a little bit in 1980–81. Consumption will go up more and stocks are expected to fall sharply in the United States and rather significantly on a world scale.

[The chart referred to follows:]



	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
			---Million metric tons (raw)---				
Production							
World	70.7	81.7	86.3	92.5	91.0	84.6	87.1
United States	5.6	6.5	6.2	5.4	5.4	5.1	5.1
Ending stocks							
World	19.0	21.2	25.0	30.1	30.8	23.7	20.8
United States 1/	2.9	2.7	3.4	3.3	3.6	3.7	3.0

1/ Includes Hawaii and Puerto Rico

Mrs. SMITH. Mr. Chairman, could I ask a question?

Mr. WHITTEN. Yes.

Mrs. SMITH. What do you think about the price of sugar?

Mr. AHALT. As we all know, the price of sugar rose sharply in 1980, but it has come down recently. Our sugar analysts believe the current tightness in that market suggests that it will come back some from current levels.

Mr. AKAKA. Mr. Chairman.

Mr. WHITTEN. The gentleman from Hawaii.

Mr. AKAKA. You state here that the situation with sugar is that we will have tight supply and higher prices. What are the projections for domestic production?

Mr. AHALT. We have estimated 1980–81 sugar production, at 5.1 million tons on a raw basis. No estimate has been made yet for the 1981 crop.

Mr. AKAKA. So, you are not able at this time to tell me whether it would be increasing or decreasing?

Mr. AHALT. That is correct. We won't have a 1981 crop estimate until the spring.

Mr. AKAKA. Last year we worked implementing legislation for the international sugar agreement and passed it. In your view, how well has ISA functioned since the U.S. participation began?

Mr. AHALT. Well, I am not a sugar expert, sir. So, it is hard for me to give you an assessment of how that program has worked. But I will be glad to provide one for the record, giving you an assessment, an analytical assessment of how it has performed.

Mr. AKAKA. Please do that. Thank you very much, Mr. Chairman. [The information follows:]

The ISA has been rather ineffective in stabilizing sugar prices over the past three years. As with most commodity programs, it has been more successful in boosting prices from low levels than holding back prices at high levels. During 1978 and early 1979, ISA initiatives to restrict production through the use of export quotas may have resulted in prices averaging 1 to 2 cents per pound above what they would have been minus the ISA. Still, prices remained below the minimum ISA price at that time. Later, when prices began to shoot up because of the 1979/80 deficit in world production, the release of ISA buffer stocks in early 1980 failed to restrict the upward movement in prices. Since the U.S. became a full-fledged member in April 1980, prices have averaged above the current 13 to 23 cent per pound ISA range as 1980/81 world sugar consumption exceeded production for the second consecutive year, drawing stocks down to a very low level. Prices have weakened in recent months, reflecting high interest rates, reported purchase deferments by some major importing countries, and a softening of global demand.

There are several apparent reasons for the failure of ISA to significantly influence sugar prices. Mr. Akaka. One is the insufficient size of buffer stocks. Also, the ISA price range is perhaps too narrow, and various trigger points within the range are too close together. Finally, non-participation by the European Economic Community, a major producer and consumer, is another factor. These problems and others will be addressed during negotiations for renewal of the ISA in 1982.

Mr. WHITTEN. You may proceed.

COMMODITY STOCKS AND PRICES

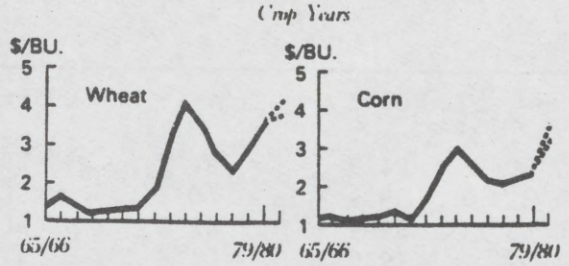
Mr. AHALT. On page 55 a summary chart that reviews stocks for the major commodities—wheat, corn, soybeans and cotton—and their prices. If you look at corn, soybeans and cotton—those spring-planted crops that were damaged by last year's hot and dry weather--you see the stocks are all pointed down significantly. Wheat, on the other hand, was a record crop, and stocks are pretty well maintained.

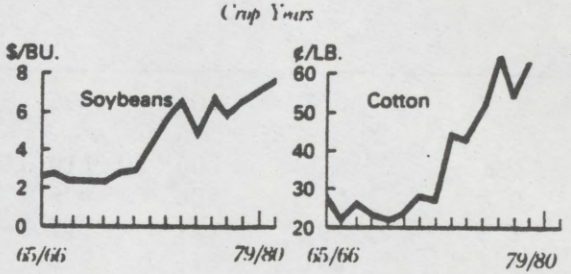
The tighter stock position has contributed to the price strength that you see in the upper part of the chart and in the tables below where we give our projected prices for the 1980-81 season.

[The charts referred to follow:]

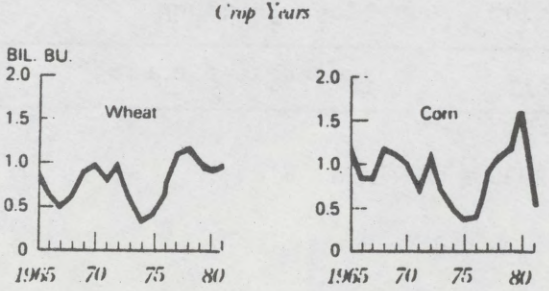
U.S. COMMODITY STOCKS AND PRICES

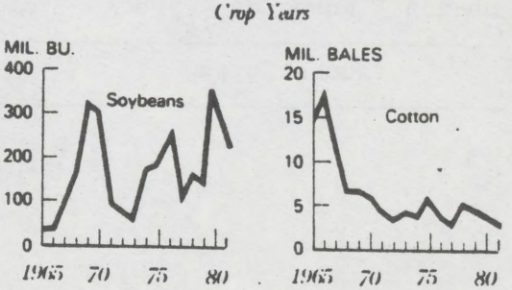
Season Average Prices





Ending Stocks





USDA/ESS

JANUARY 1981

U.S. Commodity Stocks and Prices

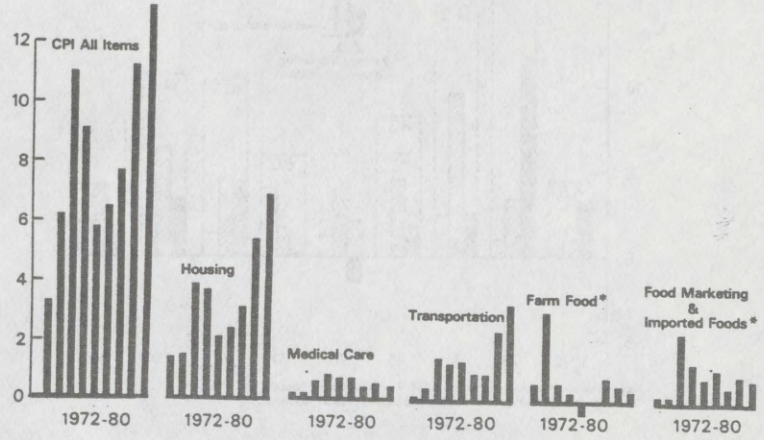
Year	Season average prices				Ending stocks			
	Corn	Wheat	Soybeans	Cotton	Corn	Wheat	Soybeans	Cotton
1975/76	2.54	3.56	4.92	51.3	400	665	245	3.6
1976/77	2.15	2.73	6.81	64.1	886	1,112	103	2.9
1977/78	2.02	2.33	5.88	52.3	1,111	1,177	161	5.3
1978/79	2.25	2.97	6.66	58.4	1,304	924	174	4.0
1979/80	2.52	3.78	6.28	63.4	1,617	902	359	3.0
1980/81	3.25-3.60	3.95-4.15	7.90 +.75 -.50	--	566	909	210	2.8

FOOD PRICES AND INFLATION

Page 57 shows what has happened to the consumer price index. In 1980, the overall consumer price index increased 13.5 percent. Items contributing significantly to that increase were higher costs for housing, medical care, and transportation.

[The chart referred to follows:]

PERCENT CHANGE IN CONSUMER PRICE INDEX
FOR ALL ITEMS AND CONTRIBUTION FROM SELECTED SECTORS



*Components of CPI subgroup : food at home.

USDA/ESS

JANUARY 1981

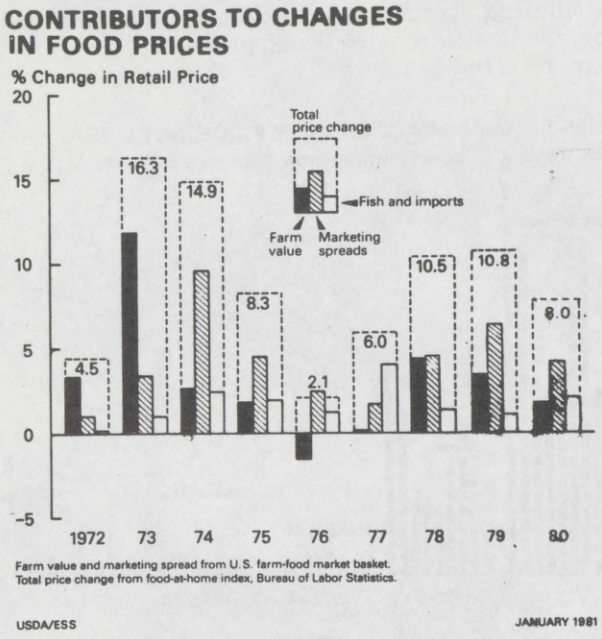
Item	1972	1973	1974	1975	1976	1977	1978	1979	1980
	--- Relative contribution ---								
CPI:									
All items	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5
Housing	1.4	1.5	3.9	3.7	2.1	2.4	3.8	5.4	7.0
Medical care	0.2	0.2	0.6	0.8	0.7	0.7	0.4	0.5	0.5
Transportation	0.1	0.4	1.4	1.2	1.3	0.9	0.8	2.5	3.3
Farm value of food	0.6	2.9	0.6	0.2	-0.3	0	0.6	0.4	0.2
Food marketing & imported foods	0.2	0.3	2.3	1.4	0.7	1.1	0.7	1.0	0.8
	--- Percent change in each sector ---								
CPI:									
All items	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5
Housing	3.9	4.5	11.6	10.8	6.2	7.0	8.7	12.2	15.7
Medical care	3.2	3.9	9.3	12.0	9.5	9.6	8.4	9.3	10.9
Transportation	1.1	3.3	11.2	9.4	9.9	7.1	4.7	14.3	17.8
Farm value of food	9.4	34.6	7.4	3.7	-5.3	0.2	16.8	10.9	5.4
Food marketing & imported foods	2.1	2.8	19.7	10.8	5.4	8.5	7.7	10.8	9.2

Mr. AHALT. The farm value of food went up only 5.4 percent; the cost of marketing and imported foods were up 9.2.

Page 58 shows increases in food prices since 1972, and breaks down the source of those increases into three components: the farm

value, the cost of processing and marketing food, and the cost of imported food, including fish.

[The chart referred to follows:]



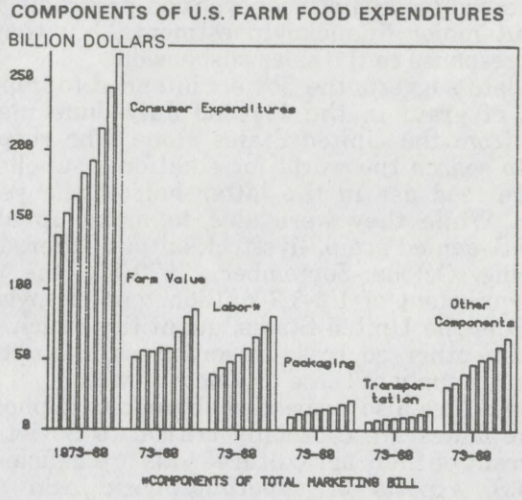
Item	1972	1973	1974	1975	1976	1977	1978	1979	1980	Forecast 1981
				--- Contribution ---						
Farm value	3.0	11.6	3.2	1.3	-1.8	0.1	4.5	3.4	1.7	3.7-6.2
Fish and imports	.2	1.0	2.5	1.9	1.2	4.1	1.4	1.2	2.1	1.8-3.0
Marketing costs	1.3	3.7	9.2	5.1	2.7	1.8	4.6	6.2	4.3	4.5-5.8
				--- Percent change ---						
Total	4.5	16.3	14.9	8.3	2.1	6.0	10.5	10.8	8.0	10.0-15.0

Mr. AHALT. Last year, prices for food in grocery stores went up 8 percent, less than in two previous years. The farm value went up only 1.7 percent, while marketing costs went up 4.3 and the cost of imported food and fish went up 2.1.

As we look into the current year, we project that food prices will rise about 10 to 15 percent. Some people think that is an awfully wide range, but these prices are subject to supply-demand fluctuations and are very volatile. We look for an improvement in farm product prices so the farm value of food will be up in the year ahead. But up also will be the marketing costs and the cost of imported food that rise each year.

Finally, Mr. Chairman, the last chart on page 59 breaks down the various components of food expenditures.

[The chart referred to follows:]



Components of U.S. farm food expenditures

Item	1972	1974	1975	1976	1977	1978	1979	Prelim. 1980	Forecast 1981
	- - - Billion dollars - - -								
Farm value	39.8	56.4	55.6	58.3	58.0	69.7	80.6	86.0	96-103
Labor 1/	36.6	44.3	48.7	53.7	58.4	66.2	73.7	81.7	88-89
Packaging	8.9	11.8	13.5	14.6	15.2	16.4	18.5	21.5	23-24
Transportation	6.1	7.5	8.5	9.1	9.8	10.5	12.2	14.2	15-16
Other	30.8	34.6	40.7	48.0	50.9	52.9	60.1	65.6	74-77
Total	122.2	154.6	167.0	183.7	192.3	215.7	245.1	269.0	296-309

1/ Labor used in processing and marketing.

Mr. AHALT. For 1980 the farm value of these food expenditures accounted for about 32 percent of the total. Other items, such as labor, accounted for almost as much as the farm value, not quite as much in this past year. In 1977 the labor value actually exceeded the farm value. But the point here is that the other components go up persistently each year, primarily reflecting inflation.

That, Mr. Chairman, completes the summary of my statement.

SOVIET EMBARGO

Mr. WHITTEN. Thank you, Mr. Ahalt. Would you please analyze for the Committee the impact of the Soviet embargo on each of the following: the Soviet government; Soviet citizens; the U.S. consumer; U.S. farmers; and world markets.

Mr. AHALT. As to the Soviet government, Mr. Chairman, after the U.S. sales suspension, the Soviets appeared to redirect their agricultural priorities. For example, the theme of self-sufficiency

became more pronounced although this will require additional expenditures. The Soviets' new Five-year Plan aims at increased soil fertility and yield capacity for grain crops, improved fodder production, expanded protein availability in the livestock sector, and in general, increased feeding efficiency. Such programs are not undertaken without major financial investments, but they represent a likely policy response to the sales suspension.

Available data suggests the Soviets intended to import about 37.5 million tons of grain in the 1978/80 July–June marketing year, 27.5 million from the United States alone. The suspension forced the Soviets to search the world for additional supplies, pay higher prices, reduce feed use in the latter half of the year, and draw down stocks. While they were able to make up about half the amount of U.S.-denied grain, livestock output suffered.

Also, during October-September, 1979/80, the Soviets were denied the equivalent of 1.2–1.7 million tons of soybeans and soybean meal from the United States, quantities which they probably made up from other sources. Nevertheless, disruptions probably occurred in the supply of these products as well.

The United States also suspended shipments of phosphates to the U.S.S.R. Phosphates are especially critical to Soviet agriculture—about 55 percent of their agricultural soils are deficient in phosphorus—and U.S. exports of superphosphoric acid (SPA) to the U.S.S.R. were expected to amount to 1 million tons annually between 1980 and 1997. Although estimates vary, the loss of the P_2O_5 nutrient equivalent of a million tons of SPA—unless made up from other sources—would result in lost grain output of about 7 million tons per year. Soviet press comments suggest phosphate problems, and M. Gorbachev (an agricultural specialist recently promoted to the Politbureau) noted in August: "the shortage of phosphates in many parts of the country limits the yield level and reduces the effectiveness of nitric mineral fertilizers and agricultural product quality."

The sales suspension took on new significance because the 1980 Soviet grain harvest was also poor amounting to only 189 million tons, 46 million below plan, and with the worst potato crop since 1962, potatoes are an important hog feed, especially in the private sector. Even if the Soviets acquire record grain imports in 1980/81, nearly a quarter of the estimated total, 34.5 million tons, represents the last U.S. shipments under the five-year U.S.-U.S.S.R. Grains Agreement; if the suspension remains in effect, the Soviets can count on no U.S. grain after September this year. The Soviets' 1980 forage crop is thought to be of low nutrient value, and they probably do not have the grain reserves to carry animal inventories if the winter is prolonged. To improve feeding efficiency, and thereby conserve on grain, the Soviets will likely turn to increased imports of soybeans, soybean meal, and other high protein feedstuffs.

Relative to Soviet consumers, available information indicates the U.S.S.R. suffered shortages of meat, milk and dairy products—commodities likely to be affected by the sales suspension. This occurred despite record 1980 inventories of Soviet cattle, cows, hogs, and poultry. The poor 1979 grain and forage harvests combined with the sales suspension had a decided effect. Heavier-than-

normal slaughter of livestock, primarily hogs, was carried out in the first two months of 1980. Hog numbers and sheep and goats declined slightly from the previous year's level, and both hogs and cattle were slaughtered at lighter weights and in generally fewer numbers. By their own statistics, Soviet meat output fell from 15.5 million tons in 1979 to 15.1 million tons in 1980, missing the planned target, which had already been sharply revised downward, by 4 percent. Milk output also declined from 93.3 million tons to 90.7 million tons, despite record cow numbers, and missed the target by about 5 percent. The poultry sector did better, but probably because it received favorable treatment since poultry is a more efficient converter of grain to meat.

Regarding the effect on U.S. consumers, the price effect of the embargo on the Consumer Price Index was negligible. Retail food prices rose 8.6 perecent in 1980. Government expenditures have increased considerably. To date, roughly $2 billion in federal funds have been spent in direct purchases of farm products, to cover contract assumption expenses, and to finance liberalization in farm programs.

Roughly $1 billion has been spent in direct corn, wheat, and poultry purchases; much or all of this outlay can be recovered, however, when these products are resold—possibly, given current outlook prospects, at prices high enough to cover all operational costs.

The majority of the contracts assumed following the suspension have been retendered but at a combined roll-over and retendering cost to date of $500 million. Modifications in commodity programs immediately following the suspension entailed intial outlays of $225 million to cover changes in storage payments and lost interest on supplies put into the farmer-owned reserve. The other initial costs associated with loan rate charges will entail short term outlays to be recouped eventually at the time of loan redemption. Hence, only the $500 million in contract-related expenses and roughly half of the $225 million in added programs expenses used to cover lost interest are net losses.

To evaluate the effect on U.S. farmers, it is necessary to realize that the effectiveness of the range of government actions taken to offset the suspension varied across the individual sectors of the agricultural economy. The impact on the agricultural sector also stretches over at least the 1979/80 and 1980/81 crop years. The 1979/80 impact was twofold. The most immediate and unadvoidable effects of the suspension were felt by those producers who were forced to sell corn, wheat and soybeans at temporarily depressed prices early in January to meet other financial commitments. The sharp downturn in prices following the suspension, however, was short-lived; major market prices recovered quickly and, basic problems notwithstanding, local prices recovered within a few weeks. The potentially larger and widespread impact of the suspension on the grain sector was largely offset by expansion and liberalization of the farm owned reserve program and direct purchases by CCC and increased grain exports to other destinations.

The Soviet sales suspension has already had a major impact on world food markets. In the short term of 5–6 months, the suspension generated a substantial shift in traditional food import and

export patterns. Many importers found traditional sources of supply limited and were forced to establish new trade relationships. The U.S. also moved aggressively to find alternative outlets for its suspension-affected grain supplies.

The pivotal roles played by U.S. and U.S.S.R. in world agricultural trade suggest the suspension will have longer term impacts. The Soviets face limited access to the world's largest supplier of exportable feedstuffs and have moved to counter this potential problem by signing a long-term agreement with Argentina and cultivating new suppliers such as India. If faced with a continued suspension, the Soviets are likely to increase efforts at self-sufficiency both by expanding domestic production and scaling back domestic use, probably in the livestock sector. Hence, greater self-sufficiency would mean small agricultural imports, and the patterns of trade would be quite different as a result of the suspension.

The U.S. would face the loss of all or almost all its single largest market. Efforts have been undertaken to find alternative outlets for U.S. agricultural exports—the recent agreement with China is an example. We are concerned that if the embargo remained in place, it will become increasingly difficult to fully replace the Soviet market and keep export levels as high as they would otherwise have been. As you know, Secretary Block has been discussing at the highest levels in Government the need to remove the embargo so that the United States can have full access to growing world needs and remain dependable supplier. However, as you know the international complexities of this situation also have to be considered.

Mr. WHITTEN. To what extent has the embargo generated an increase in on-farm storage, both in terms of storage capacity and annual cost of the reserve?

Mr. AHALT. The suspension of grain exports to the Soviet Union had no identifiable impact on increasing on-farm storage capacity. A dramatic increase in CCC facility loan disbursements to farmers occurred in fiscal 1977, 1978, and 1979. Fiscal 1980, in which the restrictions were announced, saw a dramatic reduction in facility loan activity. Several changes were made to the farmer-owned reserve as a result of the export restrictions to encourage additional entries into the program. Additional annual cost during fiscal year 1980 is estimated to be approximately $30 million.

Mr. WHITTEN. Please update the chronology which appears on p. 459 through 462 of last year's hearing of events, decisions, and actions regarding the announcement of U.S. purchases of Soviet-bound grain and poultry products.

Mr. AHALT. At last year's hearing, we concluded the chronology as of February 8, 1980. I will insert in the record data which brings us to the present.

[The information follows:]

February 15, 1980.—The CCC has signed agreements with 12 grain exporters to acquire contractual obligations for up to 16,095,029 metric tons of corn, soybeans and wheat which could not be shipped to the Soviet Union due to the imposition of export controls. This total will be reduced by the volume shipped to reach the 8-million-ton level under the U.S.-U.S.S.R. Grain Supply Agreement. The grain in the acquired contracts includes 10.8 million tons of corn, 0.7 million tons of soybeans and 4.5 million tons of wheat.

February 25, 1980.—Commerce Secretary Klutznick announced that President Carter, acting in the interest of U.S. foreign policy, has ordered an embargo on

exports or reexport from other countries of U.S. phosphates to the Soviet Union. The suspension of exports covers marketable phosphate rock, all concentrates of phosphoric acid and all concentrates of phosphate fertilizers for an indefinite period. The action was taken after a review by an interagency committee. In 1979, U.S. sales of phosphates to the U.S.S.R. totaled $97 million; sales valuing $400 million were expected in 1980.

February 29, 1980.—Secretary Bergland announced there will be no paid land diversion program for the 1980 crops of wheat, corn and other feed grains. He said the Administration is still reviewing all programs and considering possible legislative changes which will be pursued in cooperation with the Congress, to assure the impact of the suspension is fully offset and to alleviate the short-term credit pinch felt by producers.

As of this date, the Commerce Department has issued licenses for the export of 192,700 metric tons of wheat and 639,300 metric tons of corn to the Soviet Union.

March 4, 1980.—Secretary Bergland announced USDA will buy wheat and corn suspended from shipment to the Soviet Union. The first offer to buy wheat will be issued on March 7 and offers will continue until a quantity equal to that suspended from shipment to the U.S.S.R. is removed from the market. The first offer to buy corn will be issued in the middle of March and offers will continue on a regular basis. In both cases, purchases will be made at country points and will be at prevailing market prices. The purchases are being made in conjunction with USDA assumption of contractual obligations for wheat and corn.

March 6, 1980.—Testifying before the Senate Agriculture Committee, Howard Hjort requested the Congress to provide the Secretary of Agriculture discretionary authority to change the farmer-owned reserve program to permit a limited amount of 1979-crop corn not now eligible to enter the reserve. This authority would be used if, after ample opportunity, farmers who are now eligible do not put enough corn into the reserve to bring prices up. He also requested authority to permit the sale of CCC-owned corn for conversion into alcohol, but only when the farm price is above the reserve release price. The Committee approved both measures.

March 11, 1980.—USDA increased its corn export estimate, predicting 1979/80 corn exports may reach 2.4 billion bushels—up 125 million from the January 28 estimate. The changes reflect a decrease in exports available from Argentina, whose crop was smaller than earlier expected, and growing world demand resulting as importing countries seek new sources of grains in the face of strong competition from the U.S.S.R. Wheat export estimates remain the same, but soybean export estimates were raised slightly.

March 14, 1980.—The CCC mailed invitations to country warehouses offering to buy corn which was suspended from shipment to the Soviet Union. The offer to buy is an open invitation under which CCC will continue to receive offers to sell on every second Thursday following March 27.

March 18, 1980.—President Carter signed the Agricultural Adjustment Act of 1980, a measure which raises the 1980 target price for wheat to $3.63 a bushel and the 1980 corn target price to $2.35. Deputy Secretary Williams announced that producers who stay within their normal crop acreage will qualify for farm program benefits at the new announced target prices.

March 19, 1980.—Acting Secretary Williams announced approved grain storage warehouses, not located at ocean ports, are eligible to sell corn to the CCC. This action will enable more producers and elevators to participate in the purchase program.

March 24, 1980—The CCC has called for offers to purchase contract rights to receive about 710,000 tons (about 26 million bushels) of soybeans which were acquired by CCC as a result of the suspension of exports to the U.S.S.R. The delivery period for these contracts is April through June 1980.

March 27, 1980—Speaking before an in-house group of government managers, Secretary Bergland reaffirmed the government's commitment to buy grains suspended from shipment to the U.S.S.R. despite belt-tightening in the federal budget. "We will not back off in the slightest from our commitment to offset the economic impact on farmers of the suspension of grain sales to the U.S.S.R.," Bergland said.

March 30, 1980—President Carter signed into law legislation to extend the Economic Emergency Loan program until September 1981 and which will make $2 billion in capital available to farmers over the next 18 months.

April 1, 1980—The House approved legislation and sent to the White House legislation which would authorize USDA to allow non-compliers to participate in the reserve program. The bill also provides authorities for CCC to sell corn for gasohol production at the reserve release price.

April 4, 1980—Secretary Bergland also announced CCC would buy an amount of soybeans equal to the contract quantity sold today to further support domestic prices for soybeans.

April 11, 1980—President Carter signed into law a bill giving USDA authority to open the grain reserve to 1979 non-compliers. The President said the measure would "help ensure that America's farmers do not bear an unfair share of the economic burden associated with the suspension of grain exports to the Soviet Union."

April 14, 1980—CCC concluded its wheat purchase program with purchases of 94.5 million bushels (2.63 million tons) of hard red winter, hard red spring, white and soft winter wheat offered an April 3 invitation.

Total wheat purchases approximate 156 million bushels—4.2 million tons. These purchases remove from the market more than the quantities affected by the suspension of sales to the U.S.S.R. Secretary Bergland said they will be used to meet U.S. overseas food assistance programs after the Congress approved authority to establish a food security reserve.

April 17, 1980—USDA said the U.S. posted an agricultural trade surplus of $10.2 billion during the first five months of fiscal 1980—60 percent ahead of the same period a year earlier. The value of agricultural exports between October 1979 and February 1980 was $17.6 billion—36 percent above the same period in fiscal 1979.

April 22, 1980—The effects of the suspension of sales to the U.S.S.R. are beginning to be felt there, USDA reported, causing smaller inventory gains in livestock and poultry, lower slaughter weights, and a sharp drawdown in stocks. According to Howard W. Hjort, the net effect is that the Soviets will import a third less grain then they had expected during the first half of 1980.

Howard Hjort, speaking at a press conference, told reporters that the U.S.S.R. is legally committed to purchase at least 6 million tons of U.S. corn and wheat during the fifth year of the grain supply agreement.

April 28, 1980—USDA officials met with representatives of major farm groups to discuss government actions to offset the Soviet sales suspension and to discuss retendering of CCC-owned exporter contracts.

May 1, 1980—Secretary Bergland, testifying before the House Agriculture Committee, said current problems of high costs, tight credit and sagging prices are in sharp contrast to the outlook for the rest of the decade. "If inflation can be contained, and world order maintained, the 1980's will be a very good decade for American farmers as the rest of the world continues to upgrade its diet," he said.

The Secretary also affirmed that the United States intends to stand by its commitment to sell the Soviets between 6 and 8 million tons of U.S. wheat and corn during the fifth agreement year. He told the committee he will try to speed a decision on a possible grain set-aside program for 1981 to assist farmers in reducing potential surplus crops. He also said he would support legislation which would uncouple reserve release and call levels from the existing loan levels.

May 12, 1980—USDA reported that 1980/81 world grain crops may exceed 1979/80, cotton production may about match this year's record level, while oilseed production is likely to fall below the year-earlier record. With world demand for agricultural products expected to remain strong, U.S. agricultural products will benefit, perhaps setting another year's record level of exports. Domestic use is expected to continue at high levels.

May 14, 1980—USDA reported that the value of U.S. agricultural exports in 1980 is expected to reach a record $38 billion—up $1 billion from the February estimate and nearly $6 billion more than in fiscal year 1979. U.S. agricultural imports are expected to be around $18.7 billion, so that the agricultural trade surplus is expected to be $119 billion. While the suspension of sales to the U.S.S.R. is limiting the Soviet Union to only some $1.5 billion in U.S. grain this year, USDA said exports to Eastern Europe, China, Japan and Western Europe rose significantly.

September 30, 1980—End of fourth year/beginning of fifth year of the U.S.-U.S.S.R. Grain Supply Agreement.

January 7, 1981—Suspension of agricultural product sales to the Soviet Union extended through 1981. Sales and shipment of agricultural products above the 8-million tons of wheat and corn covered by the five-year agreement are prohibited.

DECONTROL OF OIL

Mr. WHITTEN. On January 28, the President terminated the remaining price and allocation controls on domestic oil and gasoline production and distribution. What impact do you expect this "decontrol" will have on both fuel availability and fuel cost for the farmer?

Mr. AHALT. Critical fuel shortages aren't likely during the coming planting, growing and harvesting season, particularly since higher prices are likely to cut demand by the industrial and transportation sectors. Price rises for gasoline and diesel are expected to add about two percent to overall crop and livestock production costs. Prices will rise in response to both higher levels set by OPEC and increases stemming from accelerated deregulation, with the latter adding 5 to 12 cents to average 1981 gasoline and diesel fuel prices.

COMMODITY STOCKS

Mr. WHITTEN. Your recent report of stocks on hand as of January 1 would indicate that we will have to have a near-record corn crop this year to meet demand. If the 1981 crop comes in at the size of the 1980 crop, what impact will this have on the price of corn, the price of meat and our export markets?

Mr. AHALT. The 1980 U.S. corn crop totaled 6.65 billion bushels. If the 1981 crop is about the same size, corn supplies in 1981/82 would be down more than a tenth from 1980/81 because of smaller carry-in stocks. The reduced supplies would lead to a sharp increase in prices and lower disappearance. Farm prices of corn could be up 25 to 40 percent from the $3.25–$3.60 per bushel range expected for 1980/81. The higher grain prices and reduced supplies would result in heavy liquidation in the livestock and poultry industries and a sharp reduction in feed use. This would result in larger supplies of meat and lower prices during the liquidation, but sharply lower long-term meat production accompanied by higher prices. It is likely that exports of corn would continue around the 1980/81 forecast level of 2.6 billion bushels as many of the major importers of U.S. corn have import levies which keep internal prices much above world price levels.

Mr. WHITTEN. World population is growing more rapidly than world food production. With the U.S. being the world's largest exporter of agricultural commodities, what does the future hold?

Mr. AHALT. Demand for U.S. agricultural exports comes basically from two sources—income growth in the developed and high income developing countries and population growth in the developing countries. In the 1970's, export volume grew more than two and a half times while export value increased more than five, reaching 164 milion tons and $40.5 billion in 1979/80, respectively. Total cereals and preparations accounted for more than two-thirds of the volume exported. The gap between total cereal consumption and production outside the U.S. exceeded 100 million tons in 1979/80 and has been growing at an annual rate of 4 million tons per year since 1960, including 3 million tons of coarse grains and 1 million tons of wheat.

In the years ahead, population and income growth are expected to continue, but at a slower rate; still, prospects for U.S. agricultural exports are good. The current projection suggests that world population will reach 6.4 billion by the year 2000, up 45 percent from 1980. Most of the increase will occur in the developing countries of Africa, Latin America, and Asia. Demand for U.S. agricultural exports from these developing countries will be strong since future growth in agricultural productivity in these areas will con-

tinue to be slow. Further, export demand for U.S. agricultural products due to income growth in the developed and high income developing countries will also be strong but at a somewhat slower rate than in the past.

To meet this growing export demand, U.S. agriculture will need enhanced technology, better management of inputs and more intensive cultivation.

However breakthroughs in emerging technology are not in sight for the next 20 years, and there are some limitations to bringing additional crop lands into cultivation. Yet, there is potential capacity of U.S. agriculture to meet growing export demand.

We should, however, expect that there will be costs involved. Increases in real farm prices likely will be required. There will also be some environmental concerns as a result of intensive farming practices such as heavy uses of fertilizer, pesticides, and soil and water resources. In the years ahead, these issues will be thoroughly debated and trade-offs made in the policy arena.

Mr. WHITTEN. Many of the developing countries must import food. If there are dramatic increases in prices, then our exports will probably go to the more affluent countries. However, over the last several years most of our market development efforts have been concentrated on the developing countries. What does the future hold for the developing countries?

Mr. AHALT. In recent years, market development has been stepped up in markets outside of Japan and Western Europe. Much of the effort has been aimed at oil-rich and other developing nations with a strong potential for becoming commercial trading partners with the United States. These countries are in the Middle East, North Africa, and Southeast Asia—and include Venezuela, Mexico, and China—and have the financial resources to compete for commodities in world markets.

Limited market development is conducted in less financially stable countries where activities are restricted to trade servicing intended to encourage more efficient usage of imported commodities. More effective use of domestic products generally results. Although such efforts will not guarantee future access to U.S. farm exports, better use will be made of available commodities.

Mr. WHITTEN. There have been reports in the press recently of the excessive debt load carried by developing countries. Because of this situation, many of these countries will have to get by with less credit. What impact will this have on U.S. agricultural exports?

Mr. AHALT. The debt situation of the developing countries will cause considerable problems as commercial lenders become more wary of extending credit and as aid flows stagnate. From 1978–1980, 9 developing countries had or initiated formal multilateral debt renegotiations to postpone payments on previously contracted debt. Several other countries have simply been in arrears in making payments as oil, food, fertilizer and capital good import bills grow. Requests to the U.S. Government for Public Law 480 agreements and for CCC export credits for agricultural exports have increased as many developing countries are hard pressed to find cash to pay for commercial food imports. In 1980, food equaled 17 percent of the total import bill of the lowest-income developing countries. Impacts of this situation include: increasing requests for

U.S. aid and commercial credits for buying food by other countries, shopping around for credit terms among food exporters by developing countries, and potentially reduced food purchases by countries in dire financial conditions.

Mr. WHITTEN. Which countries would be most prone to this problem and what do they import from us?

Mr. AHALT. The countries which have had formal negotiations on multilateral debt reschedulings in the past three years are: Turkey, Gabon, Peru, Togo, Sudan, Zaire, Sierra Leone, Liberia, and Pakistan. Other countries have been in arrears in meeting previously contracted debt servicing payments or are facing capital flight due to political/economic problems. These countries include: El Salvador, Ecuador, Ghana, Guinea, Guyana, Jamaica, Mauritania and Tanzania. Grain is the major U.S. agricultural export to countries with financial difficulties. Peru in 1979 took $119 million or 1 percent of total U.S. grain exports; however, Peru's financial position has improved. Pakistan took 14 percent of U.S. exports of soybean oil. Other countries like Ecuador and Zaire take U.S. tobacco exports as well.

RECIPIENTS OF U.S. EXPORTS

Mr. WHITTEN. Provide for the record a list of the top 50 recipients of U.S. agricultural exports, in trade or donations.

Mr. AHALT. Yes, sir, I will do that.

[The information follows:]

U.S. agricultural exports to 50 leading recipients:[1] *Value by country, fiscal year 1979–80*

Rank:		*Millions*
1	Japan	$5,775
2	Netherlands	3,515
3	Mexico	2,005
4	China, People's Republic	1,957
5	Germany, Federal Republic	1,872
6	Canada	1,830
7	Korea	1,618
8	Spain	1,463
9	U.S.S.R.	1,457
10	Italy	1,329
11	Taiwan	1,109
12	United Kingdom	1,061
13	France	821
14	Egypt	750
15	Brazil	698
16	Belgium-Luxembourg	650
17	Poland	638
18	Venezuela	618
19	Portugal	594
20	German Democratic Republic	544
21	Romania	483
22	Indonesia	450
23	Hong Kong	443
24	India	367
25	Saudi Arabia	356
26	Nigeria	336
27	Israel	336
28	Yugoslavia	321
29	Philippines	317
30	Columbia	288
31	Switzerland	280

U.S. agricultural exports to 50 leading recipients: [1] *Value by country, fiscal year 1979–80*—Continued

Rank:	*Millions*
32 Greece	273
33 Iraq	267
34 Chile	261
35 Peru	256
36 Czechoslovakia	246
37 Bangladesh	228
38 Algeria	221
39 Denmark	215
40 Dominican Republic	214
41 Norway	189
42 Thailand	171
43 Pakistan	161
44 Morocco	141
45 Sweden	137
46 Tunisia	129
47 Singapore	126
48 Ecuador	122
49 South Africa (Republic of)	118
50 Australia	110

[1] Adjusted for transshipments through Canada.

TRADE WITH OIL-PRODUCING NATIONS

Mr. WHITTEN. List for the record the countries from which we import oil and show our imports both in dollars and barrels for 1975 through 1980.

Mr. AHALT. I am glad to supply two tables which provide this information.

[The information follows:]

U.S. crude petroleum imports: Value by country, 1975-80

Country	1975	1976	1977	1978	1979	1980
			- - Million dollars - -			
OPEC						
Algeria	1,252.0	2,102.5	2,958.4	3,300.8	4,282.2	5,679.9
Ecuador	265.7	247.8	254.7	216.3	281.4	288.6
Gabon	166.9	141.2	157.5	162.7	313.6	264.1
Indonesia	1,807.6	2,431.7	2,579.5	2,690.4	2,406.8	3,726.1
Iran	1,279.7	1,356.7	2,633.8	2,686.6	2,564.2	283.9
Iraq	7.6	106.1	375.7	237.5	612.5	347.4
Kuwait	53.5	3.8	179.8	41.6	55.3	445.5
Libya	1,014.4	2,200.6	3,696.2	3,702.4	5,162.6	7,006.1
Nigeria	3,201.5	4,814.6	5,953.6	4,547.4	7,972.8	10,642.6
Qatar	53.3	115.3	291.8	317.7	277.9	235.0
Saudi Arabia	2,515.3	5,146.1	6,238.9	5,266.7	7,853.8	12,275.8
United Arab Emirates	671.0	1,352.5	1,621.5	1,844.5	1,962.2	1,971.0
Venezuela	1,922.1	1,322.7	1,562.9	1,149.3	2,128.0	1,692.1
Subtotal	14,210.1	21,341.6	28,504.3	26,165.9	35,873.3	44,858.1
Non-OPEC						
Angola	306.4	175.6	248.9	137.5	288.5	440.8
Brunei	---	13.5	21.5	38.3	40.3	185.0
Cameroon	---	---	---	28.2	150.7	536.4
Canada	2,779.8	2,005.4	1,408.9	1,232.5	1,898.9	2,196.7
China, Mainland	---	---	---	---	71.8	18.8
Congo, Brazzaville	14.5	51.2	24.9	70.9	67.6	83.0
Egypt	17.2	80.7	152.0	80.1	344.6	400.2
Malaysia	5.6	84.4	273.5	222.7	393.3	720.2
Mexico	319.5	397.1	824.8	1,489.0	3,038.5	5,923.6
Norway	71.3	261.8	349.6	670.1	713.0	2,075.3
Oman	5.8	174.2	381.0	308.7	248.8	330.5
Peru	---	---	---	117.2	400.0	540.4
Syria	---	---	9.6	29.4	152.9	20.8
Trinidad	547.1	602.9	731.8	748.5	884.4	1,495.5
Tunisia	22.8	51.2	6.5	15.9	90.3	51.9
United Kingdom	---	63.2	395.5	719.1	1,391.1	1,911.9
Zaire	---	---	---	3.5	30.7	157.5
Other	34.0	143.4	64.9	34.9	26.8	49.8
Subtotal	4,124.0	4,104.6	4,893.4	5,946.5	10,232.2	17,138.3
Total	18,334.1	25,446.2	33,397.7	32,112.4	46,105.5	61,996.4

U.S. crude petroleum imports: Volume by country, 1975-80

Country	1975	1976	1977	1978	1979	1980
	— Million barrels —					
OPEC						
Algeria	104.6	161.4	208.1	233.0	218.3	163.8
Ecuador	23.4	20.9	19.5	16.9	12.9	8.3
Gabon	14.9	12.8	12.4	12.7	16.8	7.8
Indonesia	143.7	190.6	194.6	197.8	137.0	121.6
Iran	115.4	112.9	207.0	211.5	120.0	8.5
Iraq	0.7	9.1	29.4	19.1	33.7	11.5
Kuwait	5.3	0.3	14.9	3.4	2.5	12.5
Libya	88.1	176.1	267.5	268.7	251.8	197.3
Nigeria	269.1	370.2	416.7	322.0	401.7	312.2
Quatar	4.6	9.6	22.4	24.4	13.1	7.1
Saudi Arabia	232.3	434.9	504.5	411.3	490.4	454.3
United Arab Emirates	60.3	113.0	127.6	139.0	110.0	66.1
Venezuela	173.6	114.8	125.1	93.9	133.0	70.7
Subtotal	1,236.0	1,726.6	2,149.7	1,953.7	1,941.2	1,441.7
Non-OPEC						
Angola	27.3	14.8	18.6	10.3	14.7	14.0
Brunei	---	1.1	1.6	2.7	2.3	5.3
Cameroon	---	---	---	2.2	7.1	15.4
Canada	234.1	156.9	106.3	92.4	104.7	75.7
China, Mainland	---	---	---	---	4.1	.8
Congo, Brazzaville	1.3	4.6	2.3	5.4	3.8	2.6
Egypt	1.7	7.2	12.4	6.4	17.2	12.4
Malaysia	0.4	6.6	19.2	15.7	18.7	20.4
Mexico	27.9	32.7	62.1	112.2	162.7	194.2
Norway	6.1	20.1	24.5	48.1	34.3	61.6
Oman	0.5	14.8	30.0	23.7	14.0	9.7
Peru	---	---	---	8.9	16.2	14.8
Syria	---	---	0.9	2.5	5.8	.6
Trinidad	45.0	45.1	50.1	51.8	45.2	43.7
Tunisia	2.0	3.9	0.5	1.1	4.2	1.8
United Kingdom	---	4.7	27.9	52.2	68.4	56.4
Zaire	---	---	---	.3	1.6	4.6
Other	2.4	11.3	2.3	2.8	1.1	1.5
Subtotal	348.7	323.8	358.7	438.7	526.1	535.5
Total	1,584.7	2,050.4	2,508.4	2,392.4	2,467.3	1,977.2

Mr. WHITTEN. Also provide for the record a table showing U.S. trade with the oil exporting countries for 1975 through 1980.

Mr. AHALT. I am glad to provide tables showing U.S. trade with the oil exporting countries for 1975–80.

[The information follows:]

Value of total U.S. exports to selected oil exporting countries, fiscal years 1975-80

Countries	1975 1/	1976	1977	1978	1979 2/	1980 2/
	- - 1,000 dollars - -					
Venezuela	2,055,178	2,424,497	3,084,527	3,555,274	3,799,009	4,321,861
Ecuador	398,427	383,648	515,217	596,641	656,986	804,950
Iran	2,731,793	2,808,720	2,834,554	3,481,751	1,765,539	157,816
Iraq	369,309	411,208	216,256	283,655	396,723	699,744
Kuwait	287,988	443,620	532,242	632,217	770,830	812,677
Saudi Arabia	1,007,436	2,429,815	3,404,375	4,074,364	4,632,127	5,391,228
Qatar	39,212	62,778	118,082	84,398	123,091	122,028
United Arab Emirates	308,393	393,459	520,412	470,525	609,458	855,942
Algeria	468,119	562,044	498,275	429,512	365,499	536,937
Libya	220,116	245,055	319,861	361,353	457,483	518,983
Nigeria	404,094	637,247	1,004,410	1,018,524	625,673	1,016,744
Gabon	51,046	31,343	44,629	94,946	23,095	38,478
Indonesia	717,607	983,997	791,545	793,023	905,105	1,435,554
Subtotal OPEC	9,058,718	11,817,431	13,884,385	15,876,183	15,130,618	16,712,942
Mexico	5,068,050	5,123,704	4,514,086	5,903,769	8,781,386	13,320,816
Total	14,126,768	16,941,135	18,398,471	21,779,952	23,912,004	30,033,758

1/ July-June fiscal year.
2/ Preliminary.
SOURCE: U.S. Foreign Agricultural Trade Statistical Report 1975-1980.

Value of total U.S. imports from selected oil exporting countries
fiscal years 1975-80

Country	1975	1976	1977	1978	1979	1980
			-- 1,000 dollars --			
Venezuela	4,459,117	3,349,094	4,238,012	3,575,816	4,627,900	5,172,428
Ecuador	418,525	504,179	652,895	668,583	781,800	877,452
Iran	1,806,213	1,551,745	2,529,196	2,862,369	2,170,800	1,560,031
Iraq	4,608	45,051	329,339	281,470	501,000	469,645
Kuwait	65,363	67,141	176,806	87,204	80,100	292,473
Saudi Arabia	2,450,745	4,672,712	6,311,606	5,225,716	7,287,300	11,716,976
Qatar	94,123	100,252	237,626	359,094	222,400	322,374
United Arab Emirates	583,431	1,119,402	1,638,780	1,801,223	1,776,700	2,246,762
Algeria	1,450,089	1,941,654	2,769,499	3,512,533	4,151,300	6,507,665
Libya	279,109	1,879,519	3,452,937	3,794,348	4,673,400	7,004,121
Nigeria	3,687,312	4,361,767	6,097,880	4,771,926	6,874,200	10,884,284
Gabon	218,256	179,287	237,129	166,157	271,000	334,365
Indonesia	1,892,326	2,855,932	3,494,310	3,420,765	3,595,400	4,772,962
Subtotal, OPEC	17,409,217	22,627,735	32,166,015	30,527,204	37,013,300	52,161,538
Mexico	3,147,650	3,371,119	4,386,362	5,556,535	7,874,100	11,946,652
Total	20,556,867	25,998,854	36,552,377	36,083,739	44,887,400	64,108,190

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Mr. WHITTEN. We would also like you to show for the record U.S. agricultural exports to the oil exporting countries for 1975 through 1980.

Mr. AHALT. Yes, sir; we will provide that for the record.

[The information follows:]

Value of U.S. agricultural exports to selected oil exporting countries, fiscal years 1975-80

Countries	1975 1/	1976	1977	1978	1979 2/	1980 2/
	- - 1,000 dollars - -					
Venezuela	325,064	267,850	305,110	355,353	447,688	616,174
Ecuador	58,493	68,288	71,913	78,280	92,681	122,247
Iran	668,551	157,393	441,884	452,092	489,946	51,657
Iraq	112,035	68,269	61,648	125,142	123,335	266,073
Kuwait	22,265	12,804	13,908	17,597	24,983	39,035
Saudi Arabia	113,660	175,644	145,729	283,508	311,740	346,279
Qatar	923	1,201	1,684	5,025	2,689	5,652
United Arab Emirates	8,085	12,772	12,413	21,995	44,785	89,452
Algeria	188,244	163,745	105,823	152,312	114,306	185,220
Libya	22,014	12,468	12,736	22,239	12,154	16,058
Nigeria	80,028	128,809	221,673	251,078	226,875	331,536
Gabon	149	177	242	846	625	735
Indonesia	91,203	211,640	238,945	334,397	274,120	450,842
Subtotal OPEC	1,690,714	1,281,060	1,633,708	2,099,864	2,165,927	2,520,960
Mexico	733,580	380,488	608,397	735,232	971,915	2,003,266
Total	2,424,294	1,661,548	2,242,105	2,835,096	3,137,842	4,524,226

1/ July-June fiscal year.
2/ Preliminary.

ON-FARM STORED GRAIN

Mr. WHITTEN. Please discuss with the Committee the on-farm storage program, how it has worked so far, and the outlook for the year ahead. Also discuss the impact the reserve has had on the price received by the farmer.

Mr. AHALT. The Farm Storage Facility Loan Program has been successful and popular with farmers. Its widespread use since 1977 was a primary reason why no storage crisis occurred during the record 1978 and 1979 crop years. The farmer-owned grain reserve also owes part of its success to the large amount of farm storage built under the Facility Loan Program. Farmers' use of the program will likely decline in the coming year after having been at a record level during fiscal year 1978 and continued high levels during fiscal years 1979 and 1980.

The farmer-owned reserve has strengthened farm prices of wheat and feed grains during recent years. The reserve has had the greatest impact during years of large supplies—for example, 1977–79 for wheat, and 1978–79 for feed grains. During these years, the reserve program isolated relatively large quantities of grain from the market and helped to boost prices, perhaps by as much as 10 to 20 percent. During this past year, the reserve has helped to keep wheat prices above the 1979–80 level, even though supplies were up 7 percent, and stocks were building slightly. For feed grains, and particularly corn, the large reserve on hand prior to the 1980 harvest, has helped to cushion the impact of the drought-affected 1980 crop. The reserve is being brought back onto the market as prices have reached the reserve call levels. This reserve grain will be used to meet growing export and strong domestic demand in 1980–81.

Mr. WHITTEN. How much storage capacity have we funded so far and how much more, if any, do you anticipate adding in calendar year 1981?

Mr. AHALT. Since 1977, Mr. Chairman, when the terms of the program were liberalized, CCC has loaned about $1.9 billion through the farm facility loan program to construct space for 2 billion bushels.

[Additional information follows:]

Storage capacity financed in the last 5 fiscal years

[In millions of bushels]

1977	220.1
1978	753.7
1979	684.6
1980	291.7
1981 (projected)	200.0

Mr. WHITTEN. What was the total annual cost of this reserve in calendar year 1980?

Mr. AHALT. Calendar year data is unavailable. Annual outlays for new loans in fiscal year 1980 totaled $363 million dollars. This compares with annual outlays of $679 million in fiscal year 1979, $646 in fiscal year 1978, and $157 million in fiscal 1977.

Mr. WHITTEN. As you know, the Committee has a continuing concern with the program for on-farm storage of surplus commodities. We have found a number of difficulties in this program in the

past. Please comment in some detail on your plans for storage of surplus commodities in the coming year.

Mr. AHALT. The farmer-owned reserve of wheat currently consists of about 290 million bushels of which approximately 75 percent or 220 million bushels is stored on-farm. By June 1, total wheat in reserve could exceed 300 million bushels, of which about 225 million will be farm-stored. The total wheat in reserve would represent nearly a third of the projected total carryover stocks of wheat.

For the 1981 crop year, the size of the reserve and the amount in farm storage will depend primarily on crop prospects both in the U.S. and abroad. If the U.S. has a record crop, which now appears likely, the amount of wheat in reserve will likely increase during 1981/82. On the other hand, if the U.S. wheat crop turns out smaller than expected and crops elsewhere in the world are reduced, total U.S. carryover and reserve stocks will likely decline from the projected June 1, 1981 level.

Corn in the reserve now totals about 940 million bushels, of which about 90 percent, or 845 million bushels, is farm-stored. Farm prices of corn rose sharply in the second half of 1980, reaching the farmer-owned reserve call level of $3.26 per bushel in mid-December. The corn in reserve was called on January 16. Thus, all of the corn in reserve will be redeemed over the next few months, and by October 1, 1981, the reserve will be depleted. Whether the reserve is rebuilt during the 1981/82 crop year depends on 1981 crop prospects. However, even if the 1981 U.S. corn crop is near the 1979 record, continued strong export and domestic demand in 1981/82 will likely result in increased prices and very little change in the tight carryover stock level. Therefore, although there may be some corn placed in reserve during the 1981 crop year, most of the corn will likely come back onto the market later in the year with little, if any, remaining in reserve on October 1, 1982.

PRICE OUTLOOK

Mr. WHITTEN. What is the outlook for cattle and hog prices during 1981?

Mr. AHALT. In 1981, cattle prices are expected to range from $72–$78 per hundredweight, and from $42–$53 per hundredweight for hogs.

Mr. WHITTEN. What is the outlook for corn, wheat, cotton, and soybeans in 1981?

Mr. AHALT. Corn prices in 1981 are expected to range from $3.25 to $3.60 per bushel, wheat prices from $3.95 to $4.15. USDA does not forecast cotton prices, and we expect the price for soybeans to be about $7.75 per bushel with a range of plus 75 to minus 50 cents.

INTERNATIONAL GRAIN COMPANIES

Mr. WHITTEN. International grain trading is limited to a very few participants. Please provide for the record a list of the top international grain firms, their base country or origin, what level of world grain trade passes through each corporation's hands and any other

pertinent data you feel may help to explain their role and importance in international trade.

Mr. AHALT. The North American Grain Export Association, Inc., a Washington, D.C.-based exporter association, has 32 active members, and 45 registered exporters. In addition, numerous governments, brokerage houses, private individuals, and co-ops are also involved in international grain trading.

The largest grain trading firms are multinationals with operations in both major importing and exporting countries. Shares of world grain trade handled by these private firms are not available. It is not a normal business practice for private firms to publicize information on their operations that could be used by their competitors.

FUTURE WORLD FOOD REQUIREMENTS

Mr. WHITTEN. What food production and price estimates, both domestic and international, have you made for the next two to five years?

Mr. AHALT. In the next 2 to 5 years we expect world agricultural production to increase 2 to 3 percent annually. Preliminary projections would indicate that U.S. and foreign grain and oilseed production under normal weather conditions would increase annually about 2.4 percent and 3 percent, respectively, as indicated in the figures which follow. Total U.S. meat production would increase by less than 2 percent annually and total about 56 billion pounds by 1985.

[Tables follow:]

[In millions of metric tons]

Year	Total grains			Total oilseed and meal [1]		
	United States	Foreign	World	United States	Foreign	World
1980/81	268.0	1,145.9	1,413.9	44.1	50.0	94.1
1982/83	311.3	1,222.2	1,533.5	46.6	53.0	99.6
1985/86	334.2	1,312.3	1,646.5	52.2	58.7	110.9

[1] In terms of 44 percent soybean meal equivalent.

U.S. MEAT PRODUCTION PROJECTED TO 1985

[In billions of pounds]

Year	Beaf and veal	Pork	Poultry	Total
1980	21.8	16.4	14.6	52.8
1982	23.6	14.9	15.7	54.2
1985	25.2	14.7	16.1	56.0

Price forecasts are difficult to make with the uncertainty over the rate of inflation that may occur over the next 2 to 5 years. However, because of increased world demand from gains in both population and real GNP growth rates, the real prices of agricultural products are likely to increase slightly over the next few years. This forecast increase in real prices contrasts to the 3.5 percent decline per year in real agricultural prices since 1973.

Mr. WHITTEN. With the world population increasing as it has been, what type of planning activities have been underway to meet the challenges facing U.S. and world agriculture? What research efforts are being directed to meet these demands?

Mr. AHALT. Information on global physical conditions is being generated by AgRISTARS, a collaborative effort of USDA, NASA, the Interior Department and the Commerce Department based on innovations in remote sensing and data transmission and processing. Information on global economic conditions is gathered internally and in cooperation with the U.N. Food and Agricultural Organization and the World Bank.

Expansion of food production is being advanced by U.S. national efforts and by support of international agricultural research. Basic plant and animal research conducted in leading U.S. institutions is rapidly advancing knowledge of genetics and living cells, producing recominant DNA techniques which promise to revolutionize the biological sciences and agricultural and other industries. Agricultural productivity will be enhanced through improved photosynthic efficiency, development of anti-transpirants that inhibit plant loss of water through evaporation, and nutrient availability and utilization in livestock feeding. Other anticipated innovations in agriculture include: cows that routinely have twins and ewes that have triplets, new crops from hybrid breakthrough, conversion of unplatible products to edible animal feeds, intensified cropping, reduced tillage, biological insect controls, drought resistant plants, growth regulators and livestock embryo transplants, already commercialized. USDA is planning and conducting research on increasing energy efficiency in agricultural production, processing and distribution, development of new renewable crop sources of plant-derived hydrocarbons, the use of biomass, and utilization of alternate energy sources such as solar and wind energy.

The U.S. supports the Consultative Group in International Agricultural Research research centers. Ten centers situated around the world conduct research on tropical and arid zone crops, cereal grains, legumes and the potato, livestock production and livestock disease. In addition, CGIAR funds the International Board for Plant Genetic Resources in Rome, the Informational Food Policy Research Institute in Washington, and the International Service for National Agricultural Research in the Netherlands. The ISNAR assists the developing countries in developing the national research capacity essential to success of their own food production efforts.

Mr. WHITTEN. Have you set any goals or established some milestones for the future, and if so, what are they?

Mr. AHALT. The Department has established goals for increasing the availability of food to meet world requirements. These goals are to expand agricultural exports and thereby provide greater food availability abroad, and to help countries increase their own capability to meet their rising food requirements. Programs operated by the Foreign Agricultural Service, which includes the General Sales Manager's office, and by the Office of International Cooperation and Development directly relate to achieving these two goals.

USDA also has other more domestically oriented goals and achieving these will also enhance food availability to meet world requirements. These goals relate to maintenance and enhancement

of farm income and promoting agricultural production efficiency and effective marketing and distribution of agricultural products. Programs operated by USDA's Agricultural Stabilization and Conservation Service, Federal Crop Insurance Corporation, Agricultural Marketing Service, Soil Conservation Service, and the Science and Education Administration relate to achieving these goals. Programs operated by these agencies help to ensure that the proper physical and economic environment exists for expanding agricultural production and marketing so that consumption here and abroad can continue to increase in line with the growth in population and income.

To my knowledge, precise targets or milestones have not been set by the Department for increasing agricultural production and marketing. However, the Department has completed a number of long range projections for U.S. and world supply and demand for agricultural products. To meet the projected growth in world demand for food, production in the U.S. and in the rest of the world, particularly in developing countries, will have to continue to increase at relatively high growth rates to prevent severe imbalances from occurring. In this regard, the Department's program can make a significant contribution in helping to expand food supplies.

Mr. WHITTEN. What kind of planning does the 1982 budget contain toward meeting these goals?

Mr. AHALT. I can only report to you on what President Carter's fiscal year 1982 budget proposed to Congress since the new Administration has not completed its review of the budget.

The 1982 budget as submitted seeks a modest expansion related to USDA's export programs.

It requests an increase of about $8.7 million for the Foreign Agricultural Service. Of this amount, about $7.2 million is to cover increased operating costs, and $1.2 million is for new data and communications activity by the agency. These increases are in line with past efforts of the Congress and the Administration to offset overseas inflation costs of FAS's programs due to the erosion of the buying power of the dollar.

For the P.L. 480 food aid program operated by the General Sales Manager, the budget request would provide for the shipment of 5.9 million tons, of which 4.2 million tons would be shipped under Title I/III and 1.7 million tons under Title II. This compares to projected shipments of 5.3 million tons under these programs during fiscal year 1981. Rising food needs in Africa and Asia are largely responsible for the need to increase food aid shipments. This level of shipments would be in excess of the U.S. commitment to provide 4.47 million tons of grains annually under the Food Aid Convention.

The commercial export credit program of the Department is scheduled to continue to provide $2 billion in all-risk assurance guarantees for private banking financing of U.S. agricultural exports.

From the Office of International Cooperation and Development, the budget requests an increase of $1.3 million for scientific exchange activities with other foreign governments and $2.5 million for international cooperative research. These increases build upon prior year activities. Additional funds for scientific exchange will

be used to expand the scope of present agreements and to enter into new agreements. A number of scientific exchange agreements have been entered into, to expand our knowledge to deal with a range of agricultural problems. Exchange agreements with China, Nigeria, Mexico, Brazil, to name a few, are currently underway.

Funds for cooperative research are being requested to solve a number of difficult agricultural problems shared with other nations. The research to be emphasized includes: energy, pest control, crop production, and utilization of natural resources.

Finally, to continue to provide the physical and economic environment for enhanced U.S. agricultural production, the Department is requesting modest increases in the budget for farm commodity loans, crop insurance, pest and disease control, research, and education.

Mr. WHITTEN. As you know, a general provision was added to the Appropriations Bill last year, which reads as follows:

SEC. 620. None of the funds appropriated in this Act shall be used to require producers to remain within their normal crop acreage to be eligible for price-support loans, target price protection, or disaster assistance with regard to the 1981 programs for cotton, wheat, feed grains, and rice under the Food and Agriculture Act of 1977, as amended (7 U.S.C. 1281): Provided, That any increases in acreage in 1981 shall not be used in determining normal crop acreage in future years.

Have you developed any preliminary estimates of the impact of this provision on the actual acreage of these crops to be planted this year? Do you have under consideration any programs to limit acreage?

Mr. AHALT. Without the normal crop acreage (NCA) requirement, planted acreage of the 14 NCA crops in 1981 may be 1 to 3 million acres higher than if the requirement was imposed. This represents about 1 percent of the total acreage planted to these crops.

Widespread drought this past summer sharply reduced U.S. supplies of feed grains, soybeans, and cotton. Carryover stocks of feed grains and soybeans will be drawn down substantially from year-earlier levels while cotton stocks will remain near minimal levels. U.S. wheat stocks are more adequate but world stocks are the lowest in 5 years. With the tight supply situation for all the commodities, there is a need for increased acreage in 1981 to meet the growing domestic and export demand and replenish stocks. As a result, no consideration is being given to any programs that would limit acreage in 1981.

EXPORTS

Mr. WHITTEN. What level of agricultural exports do you project for 1981 and what will be the major changes from 1980? What will be our imports?

Mr. AHALT. U.S. agricultural exports in 1981 are projected to reach $47 billion, the 11th consecutive record year. This compares with $40.5 billion in fiscal year 1980. Export volume is expected to hit another record—169 million metric tons—exceeding last year's 163.9. Imports of agricultural products are forecast at $18.5 billion, up from 1979/80's $17.27 billion.

Mr. WHITTEN. What impact do various levels of CCC loan guarantees have on total U.S. exports, and why? What impact would a CCC direct loan program have?

Mr. AHALT. The Export Credit Guarantee Program provides several short-term credit incentives that in combination operate to increase the total level of U.S. commodity exports. In fiscal year 1981, the guarantee exports ceiling totaled $2 billion. The currently announced portion of this program to date has an aggregate dollar value of nearly $1.5 billion. In addition, several requests are under final review with an aggregate value of $210 million. Thus, the likely value of export guarantee coverage will be approximately $1.7 billion by the end of the second quarter of fiscal 1981.

The Export Credit Guarantee Program permits longer repayment periods, up to 3 years, than typically available from strictly private financing sources. Private agricultural commodity financing generally has maximum repayment terms of 180 days. Additionally, banks engaged in international financing generally have selp-imposed limits on financing exports to individual countries. The availability of agricultural commodity export guarantees encourages available private sector export financing to expand and maintain existing markets, while penetrating and developing new markets.

The export credit guarantees do not represent a direct outlay of federal funds. They are rather, a contingent liability that result in a direct outlay of funds only in the event of a payment default. The outlay of funds in this case does not result in a loss but rather a rescheduling of the original repayment terms.

Mr. WHITTEN. How does Title I of Public Law 480 impact on total anticipated exports?

Mr. AHALT. Although the share of U.S. agricultural exports moving through the Public Law 480 program has been steadily declining since the early 1960's, less than 4 percent of the total value of U.S. exports move through the Public Law 480 program, significant quantities of rice and a lesser volume of wheat still are shipped under the program. Nearly 17 percent of total U.S. exports of rice during fiscal year 1980, for example, moved under Public Law 480, roughly 80 percent under Title I. Moreover, depending on the global supply/demand balance, it has been an important factor in vegetable oil and cotton exports in recent years. In fiscal year 1981, Title I/III accounts for approximately half of the total Public Law 480 budget in value terms; therefore, the direct effect of any cut in the program would be in immediate reduction in U.S. exports of rice and wheat in the short run.

Possibly a more important consideration as we enter the 1980's will be whether petroleum-importing countries will have the ability to finance their historical level of food imports given increasing strains on their external account due to rising energy prices. If an IMF food financing facility is established, this may not develop into a serious problem. However, it is doubtful such a facility can or will be established in the near term.

Mr. WHITTEN. What impact do interest rates have on exports?

Mr. AHALT. High interest rates mean that the cost of holding inventories tend to weaken. Either accumulation slows or stocks may even be reduced and prices for agricultural products fall. While this drop in prices may encourage domestic consumption,

exactly the opposite may occur with foreign purchases. As interest rates rise, the short-term foreign exchange value of the dollar tends to increase if all other things remain the same. Thus lower domestic prices may then not necessarily be reflected in lower prices to foreign purchasers.

EXPORTS TO CHINA

Mr. WHITTEN. What do you anticipate in the way of exports to China in 1981, both in terms of dollar volume and commodities?

Mr. AHALT. U.S. agricultural exports to China in fiscal year 1981 are projected at about $2.5 billion, roughly one-fourth above the $1.96 billion level of fiscal year 1980. About 60 percent of the total, $1.6 billion, will be grains—$1.4 billion of wheat and $200 million of corn. Cotton will be the second largest U.S. export commodity, with shipments estimated at about $650 million. U.S. soybean and soybean oil exports are likely to remain at about the level of the previous year, a combined total of roughly $250 million.

Wheat accounts for much of the increase in U.S. agricultural exports, reflecting an estimated 80 percent increase in quantity and higher prices. Fiscal year 1981 wheat exports are estimated at 7.7 million tons. Recent heavy wheat sales to China are the result of both continued demand pressure and an estimated 12.5-million-ton drop in 1980 Chinese production of grains, particularly wheat.

Relatively high corn prices seem to have resulted in some substitution of wheat for corn in China's fiscal year 1981 imports to date. So far, the United States has committed only 550,000 of corn exports compared to 1.1. million tons contracted at this time last year.

Cotton imports in 1981 are projected somewhat below those of 1980. But, P.R.C. import demand for cotton remains strong despite a record 1980 crop and high world prices. The explanation for this is as yet unclear, although mill use of cotton must be running above planned levels and efforts may be underway to build up uncomfortably low stock levels.

Continued tight supplies of edible oil and a mediocre 1980 soybean harvest will tend to keep imports of soybeans and soybean oil at high levels. But, 1981 imports may be less than 1980's due to high world prices and good 1980 harvests of other oilseeds.

EXPORTS TO MEXICO

Mr. WHITTEN. What is the outlook for U.S.-Mexican agricultural trade?

Mr. AHALT. Mexican agriculture has suffered from low or negative growth in output for a number of years which, together with a crippling drought in 1979, resulted in considerably higher food imports. The value of U.S. agricultural exports to Mexico in fiscal year 1980 exceeded $2 billion, more than double the previous year's level, making Mexico our third largest customer. Preliminary expectations for fiscal year 1981 are that import demand will again be up sharply—it is forecast at $2.7 billion—making it the second largest cash customer for U.S. agricultural exports as Mexican stocks of basic foodstuffs are still low and there is a need to ensure domestic supplies the year before a presidential election. A new

supply agreement for 1981, signed December 1980, provides for U.S. calendar year 1981 shipments to Mexico of 6.1 to 8.1 million tons of grains and oilseeds, worth about $2 billion.

In this setting of a troubled agricultural sector and rising farm imports, Mexico launched an ambitious farm and food program—SAM (Sistema Alimentario Mexicana, or the Mexican Food System) aimed at achieving self-sufficiency in such staples as corn and beans by 1982 and in other basic foods by 1985. Progress will doubtless be made in this effort to avoid complete "petrolization" of the Mexican economy and to escape from becoming a target for the perceived U.S. strategy of using food as a weapon. However, a number of factors including weather and a high proportion of unproductive land, will probably frustrate Mexico's efforts to largely satisfy consumer demand from domestic supply. Rapid population growth, rising per capita consumption, and a change to higher income foods will result in rapidly growing food and feed demand and in turn, a high level of U.S. agricultural exports to Mexico. However, it is not likely that U.S. exports will continue to expand at the recent high rates because of projected investments under the SAM program in the agricultural sector.

FARM INCOME

Mr. WHITTEN. In regard to the information you have supplied in the past on the average family income from all sources for farmers, do you have any precise information on what proportion of farmers are trying to basically work away from their farms full-time and which ones are trying to rely upon agriculture?

Mr. AHALT. We do not have any precise information to identify those individual farmers working full-time off the farm or those who would like to work full-time off the farm. However, as the table which follows shows, approximately 800,000 farms with sales of less than $5,000 in 1979 have only 8 percent of their income from farming, and are obviously depending on off-farm income for their main support. Individual farms vary within each class, and some farms in the upper sales classes could depend on off-farm income for their main support. The 700,000 farms with sales of $40,000 or more have about 70 to 80 percent of their income from farming. Most of these farm operators depend on the farm for their main source of income.

Many of the 500,000 farms with sales of $5,000 to $19,999 depend on off-farm income, as farm income constitutes only 15–30 percent of their total income. The farms with sales of $20,000 to $39,999 have about 50 percent of their income from farming and 50 percent from off-farm sources.

[Additional information follows:]

INCOME PER FARM OPERATOR FAMILY FROM FARM AND OFF-FARM SOURCES AND BY VALUE OF SALES CLASSES, 1979

Item	Farms with sales of—						
	$100,000 over	$40,000 to $99,999	$20,000 to $39,999	$10,000 to $19,999	$5,000 to $9,999	$2,500 to $4,999	Less than $2,500
Number of farms (000)	226	459	327	274	250	242	555
Farm income ($/farm)	47,827	19,553	10,489	5,398	3,012	1,769	1,832

INCOME PER FARM OPERATOR FAMILY FROM FARM AND OFF-FARM SOURCES AND BY VALUE OF SALES CLASSES, 1979—Continued

Item	Farms with sales of—						
	$100,000 over	$40,000 to $99,999	$20,000 to $39,999	$10,000 to $19,999	$5,000 to $9,999	$2,500 to $4,999	Less than $2,500
Off-farm income ($/farm)	13,398	8,647	9,792	13,174	17,037	20,275	20,516
Farm income as a percent of total income	78	69	52	29	15	8	8

Mr. WHITTEN. Two years ago, the Committee received testimony [p. 491] that, "If one assumes that two different people each had $100,000 to invest in 1966, the one that chose to invest in U.S. farmland would have a return, after accounting for inflation, of more than $179,000 now. If one would have invested in stocks, the $100,000, after accounting for inflation, would have shrunk to about $42,000." Can you please update this information in current terms? The basic point is that investing in U.S. agricultural land has been very profitable in recent years. This poses a problem for the future of agriculture. It does make entry into agriculture very difficult. We would appreciate any comments you have in this regard.

Mr. AHALT. From 1970 to 1980, money invested in common stocks lost about 37 percent of its real value, while funds invested in farmland increased in real value by about 57 percent. Stocks have performed relatively better in recent years. From 1978 to 1980, real stock values increased by about 3.4 percent, while real farmland values increased by about 4.6 percent.

A number of factors have contributed to increases in land values. Strong export demand has raised crop prices and expected future returns to land ownership. The tax structure has encouraged land ownership. Farm commodity programs have increased and stabilized farm incomes, and government lenders have helped to provide farmland buyers with loans at liberal terms.

In recent years farms have earned much more from asset value appreciation than from current income. For many farmers, current income is often insufficient to meet mortgage payments. Those best able to purchase farmland have been wealthy farmers and nonfarmers with income that can supplement that which is earned from the land. Beginning farmers and others who depend primarily on farm sources of income are at a competitive disadvantage in buying land.

Beginning farmers can have difficulty finding land for sale. Since land is an attractive hedge against inflation, those who would otherwise sell have been encouraged to hold their land longer. Further restricting the supply of land are estate tax laws which have discouraged the sale of land by heirs. These and other factors that restrict potential land sales lead to higher land prices.

Land ownership has become more concentrated. Tax rules have strengthened the competitive position of the wealthy in buying land. Many farm program benefits have been capitalized into higher land values and have thus benefitted land owners rather than the farmers for whom they were intended.

Mr. WHITTEN. In regard to recent trends of an increase in farmers' real estate debt, do you know how much of that is refinancing

existing debt, i.e., moving the financing from production credit or some other previous source of financing and imposing a debt on a land that was previously not encumbered?

Mr. AHALT. Mr. Chairman, farmers generally refinance only when faced with a situation where they cannot meet their current obligations or when long-term interest rates are substantially lower than short-term rates. Therefore, the process occurs only occasionally and is not expected to be a continuing phenomena. During spring 1980, however, farmers and farm lenders were both concerned about forecasts of substantial declines in net farm income and interest rates on real estate loans were 3 to 5 percentage points less that those for short-term loans. Later in the year short-term interest rates declined below long-term rates, but a drought reduced many farmers' incomes. Preliminary measures show nonreal estate and real estate farm debt increasing by 12 percent and 17 percent, respectively, during 1980. In 1979, nonreal estate debt grew by 15.3 percent and real estate debt rose by 15.9 percent. Assuming that growth rates for 1979 represent a normal distribution of changes in farm debt, there was a substitution of over $1.5 billion of farm real estate debt for nonreal estate debt in 1980.

We cannot, at this time, answer the question more specifically because refinancing frequently involves more than one lender. For example, the debts of a farmer who goes to the Federal Land Banks (FLB) to borrow against his land to repay a Production Credit Association (PCA) loan would be reported as a new loan at the FLB and a loan repaid at the PCA. The same is true for any combination of real estate and nonreal estate lenders. In addition, our data cannot distinguish between new real estate loans made for the purpose of a change in ownership from those made for refinancing.

Mr. WHITTEN. Do you have records showing the number of farmers who went out of business in the last year? Do you have any information detailing the reasons for those farmers going out of operation? What is the extent of your knowledge and on what research is your knowledge based on this point?

Mr. AHALT. There are no statistical data collected to show how many farmers go out of business in any given year. The closest thing we have is the annual farm number estimates, which show the net change in the number of farms from year to year. However, because there are new entrants into farming each year, the number of farmers who go out of business each year is larger than the decline in the number of farms shown by these statistics.

There are several reasons why farmers go out of business; a primary one is retirement. Others include shifting to nonfarm occupations and discontinuing of farming operations by part-time farmers.

Our knowledge of this subject is rather limited, and is based largely on data from the Census of Agriculture. An analysis of change of farmer operations by age group between 1964 and 1974 found that over 80 percent of the farmers leaving farming during this 10-year period were in the retirement-age class. From this we assume that retirement accounts for the great majority of exits from farming. Only half of these retiring farmers were replaced by younger persons entering the farming occupation. The pre-retire-

ment age farmers who left farming during the decade were concentrated on smaller farms. Many of these would be part-time farmers who quit farming operations, but continued to live on their land as rural residences. During the 1974–78 period, there was a significant decrease in the number of medium-sized farms, those with gross incomes between $20,000 and $100,000, measured in constant 1969 dollars. The rapid inflation in input prices during this period has put farmers in a cost-price squeeze that has been particularly acute for farmers in the medium-size range. This inflation has probably caused farmers to make adjustments, such as retiring early, scaling their operations back to a part-time basis, and moving into new occupations that offer higher returns.

BALANCE OF PAYMENTS

Mr. WHITTEN. American agriculture has contributed significantly to the U.S. balance of payments. Please provide for the record a history of this role in terms of other sectors of the economy.

Mr. AHALT. You are quite right, sir, about the historical significance of the agricultural trade balance which again moved upward in 1980. I will provide a table that shows the comparison in the agricultural and nonagricultural balances over the years. The main factor in the latter's decline since 1974 is petroleum.

[The information follows:]

AGRICULTURAL AND NONAGRICULTURAL TRADE BALANCES, 1930–80

[In billions of dollars]

	Agricultural			Nonagricultural	Total balance
	Exports	Imports	Balance		
1930	1.2	1.5	−0.3	+1.0	+0.7
1935	.7	1.0	−.3	+.5	+.2
1940	.5	1.3	−.8	+2.1	+1.3
1945	2.3	1.7	+.5	+4.9	+5.4
1950	2.9	4.0	−1.1	+2.5	+1.4
1955	3.2	4.0	−.8	+4.9	+4.1
1960	4.8	3.8	+1.0	+4.4	+5.4
1965	6.2	4.1	+2.1	+3.7	+5.8
1970	7.3	5.8	+1.5	+1.3	+2.8
1972	9.4	6.5	+2.9	−9.3	−6.4
1973	17.7	8.4	+9.3	−8.0	+1.3
1974	22.0	10.3	+11.7	−14.8	−3.1
1975	21.9	9.3	+12.6	−2.8	+9.9
1976	23.0	11.0	+12.0	−20.7	−8.7
1977	23.7	13.5	+10.2	−40.0	−29.8
1978	29.4	14.8	+14.6	−46.4	−31.8
1979	34.7	16.7	+18.0	−46.7	−28.7
1980	41.0	17.4	+23.6	−50.0	−26.4

AGRICULTURAL TRENDS AND STATISTICS

Mr. WHITTEN. What has been the trend over the past decade in gross farm income, production expenses and net farm income? How has inflation affected farm income?

Mr. AHALT. Gross farm income has been rising with increases in both commodity prices and sales by farmers, and net farm income in 1981 is likely to more than double the 1971 level. But income

has been under pressure since the mid-1970's from rapidly rising production expenses, particularly for energy-related inputs. If farm income is further adjusted for increases in overall inflation in the economy, farm income this year will be hard-pressed to match 1971.

[The figure follows:]

FARM INCOME AND EXPENSES

[In millions of dollars]

Item	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 [1]
Gross income	62.0	71.0	98.9	98.3	100.3	101.8	108.1	126.9	149.6	154.9	173–181
Expenses	49.4	52.3	65.6	72.2	75.9	83.1	90.3	100.8	118.6	131.6	145–149
Net farm income: current dollars	14.6	18.7	33.3	26.1	24.5	18.7	17.8	26.1	31.0	23.3	28–32
Real dollars [2]	12.1	14.9	25.1	17.7	15.2	11.0	9.8	13.4	14.2	9.4	10–12

[1] Forecast.
[2] Current dollars divided by Consumer Price Index for all items (1967=100).

Mr. WHITTEN. What has been the trend in prices received by farmers since 1971?

Mr. AHALT. Prices have trended upward over the past decade and in 1980 they were nearly 2½ times the 1967 level. But prices have shown sharp year-to-year changes, both up and down, depending on crop and livestock supplies at home and abroad.

Mr. WHITTEN. What has happened to prices paid by farmers for the same period?

Mr. AHALT. In contrast to the volatility in prices received by farmers, prices paid by farmers have shown a persistent uptrend. And prices paid have increased at a faster rate than prices received, resulting in a price-cost squeeze on producers. By 1980, prices paid by farmers were 2.8 times the 1967 level.

[The figures follow:]

PRICES RECEIVED AND PAID BY FARMERS

[1967=100]

Item	Percent of 1967									
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Prices received (all commodities)	113	125	179	192	185	186	183	210	241	245
Crops	108	114	175	224	201	197	192	204	223	239
Livestock products	118	136	183	165	172	177	175	217	257	251
All prices paid	118	125	144	164	180	191	202	219	250	280
Production items	113	121	146	166	182	193	200	217	144	277

Mr. WHITTEN. How have returns to equity in agriculture compared with those in other segments of the economy over the past decade?

Mr. AHALT. Returns to farmers generally have been well below those in other parts of the economy. Exceptions can occur when world crop shortfalls result in sharply higher farm prices, as was the case in 1973 when farm income was at a record level.

[The figures follow:]

RETURNS TO AGRICULTURE COMPARED WITH MANUFACTURING

[In percent]

Year	Farming		All manufacturers	Food and kindred products	Petroleum and coal products	Textile mill products
	Current	Acquisition value				
1972	5.6	11.9	10.6	11.1	8.7	7.5
1973	11.0	24.6	12.8	12.8	16.6	9.2
1974	6.2	16.1	14.9	14.0	21.0	9.9
1975	5.1	12.9	11.6	14.4	12.5	4.2
1976	2.9	7.7	14.0	14.9	14.4	8.0
1977	2.2	6.4	14.2	13.3	13.6	8.6
1978	3.8	10.9	15.0	13.8	13.3	11.5
1979	4.1	11.6	16.5	14.7	20.4	11.9
1980	2.4	6.9	13.9	13.8	21.3	8.5

Note.—Manufacturing returns are after corporate taxes have been deducted. Returns are based on acquisition cost. Data are taken from various issues of the Quarterly Financial Report for Manfacturing, Mining, and Trade Corporations, Federal Trade Commission. Returns to farm equity were calculated by Bruce Hottel, USDA. All estimates for 1980 are preliminary.

Mr. WHITTEN. What have been consumer expenditures for food since 1971, and how much of expenditures have been reflected in farm value and in marketing of food products?

Mr. AHALT. The farm value has represented the largest single component of consumer food expenditures in recent years. But marketing components have shown much sharper increases over the past decade, with expenditures for labor, packaging and transportation more than doubling.

[The figures follow:]

COMPONENTS OF U.S. FARM FOOD EXPENDITURES

[In billions of dollars]

Item	1972	1973	1974	1975	1976	1977	1978	1970	Preliminary 1980	Forecast 1981
Farm value	39.8	51.7	56.4	55.6	58.3	58.0	69.7	80.6	86.0	96–103
Labor [1]	36.6	39.7	44.3	48.7	53.7	58.4	66.2	73.7	81.7	88–89
Packaging	8.9	9.4	11.8	13.5	14.6	15.2	16.4	18.5	21.5	23–24
Transportation	6.1	6.4	7.5	8.5	9.1	9.8	10.5	12.2	14.2	15–16
Other	30.8	31.6	34.6	40.7	48.0	50.9	52.9	60.1	65.6	74–77
Total	122.2	138.8	154.6	167.0	183.7	192.3	215.7	245.1	269.0	296–309

[1] Labor used in processing and marketing.

Mr. WHITTEN. What has been the farmers' share of the food dollar since 1950?

Mr. AHALT. The farmers' share of the food dollar has been fairly stable in recent years, averaging 38 to 39 percent, although below the level of the early 1950's when farm prices rose sharply.

[The figures follow:]

FARMERS' SHARE OF FOOD DOLLAR

[By calendar year; dollars in million]

	1950	1960	1970	1975	1976	1977	1978	1979	1980	Forecast 1981
Farmers' share of food dollar [1] (in percent)	47	39	38	41	38	38	39	38	37	38–39
Consumer expenditures for farm food [2]	$44	$67	$106	$167	$184	$192	$216	$245	$269	$269–309
Farm value	18	22	35	55	58	58	70	81	86	96–103

FARMERS' SHARE OF FOOD DOLLAR—Continued

[By calendar year; dollars in million]

	1950	1960	1970	1975	1976	1977	1978	1979	1980	Forecast 1981
Marketing changes	26	45	71	111	126	134	146	164	183	200–206

[1] Based on grocery store expenditures only.
[2] Total expenditures including away from home eating.

Mr. WHITTEN. What has happened to the number of farms since 1950?

Mr. AHALT. The number of farms today is less than half of what it was 30 years ago. But the decline in farm numbers has been very gradual since the mid-1970's.

[The figures follow:]

NUMBER OF U.S. FARMS

[In thousands]

Item	1950	1959	1969	1975	1976	1977	1978	1979	1980	1981
Farm numbers[1]	5,388	3,711	2,730	2,521	2,497	2,456	2,436	2,430	2,428	2,419

[1] Beginning with 1975, reflects the new definition of a farm as a place having annual sales of agricultural products of $1,000 or more; for prior years, $250 of sales for farms of less than 10 acres or $50 of sales for farms of 10 acres and over.

Mr. WHITTEN. What has happened to the number of farm and nonfarm workers since 1950?

Mr. AHALT. Adoption of new technology and mechanization has caused a sharp drop in farm population since 1950. This decline has slowed in recent years, however, and the farm population has remained above 6 million.

Mr. WHITTEN. What percentage of the population remains on farms?

Mr. AHALT. Farm population as a percent of the total population has remained near 3 percent in recent years.

[The figures follow:]

FARM AND NONFARM EMPLOYMENT AND FARM POPULATION

[By calendar year]

	1950	1960	1970	1975	1976	1977	1978	1979	1980
Millions of persons, 16 years and over:									
Civilian labor force employment, total	58.9	65.8	78.6	84.8	87.5	90.5	94.4	96.9	97.3
Nonagricultural	51.7	60.3	75.2	81.4	84.2	87.3	91.0	93.6	94.0
Agricultural	7.1	5.5	3.4	3.4	3.3	3.2	3.4	3.3	3.3
Farm population[1]	23.0	15.6	9.7	8.9	8.3	6.2	6.5	6.2	6.1
Farm population's percent of total population[1]	15.2	8.7	4.7	4.2	3.8	2.9	3.0	2.8	2.7

[1] Data and percentages since 1977 based on new definition of a farm defined as a place having annual sales of agricultural products of $1,000 or more; for prior years, $250 of sales for farms of less than 10 acres or $50 of sales for farms of 10 acres and over.

Mr. WHITTEN. What has been the farm debt since 1950? How has the debt compared with assets and with farm income?

Mr. AHALT. Both the farm debt and assets have risen in recent years, and the debt-to-assets ratio has shown little change. However, the drop in 1980 farm income caused a sharp rise in the debt-to-income ratio.

[The figures follow:]

FARM DEBT, ASSETS, AND NET FARM INCOME

[By calendar year]

	1950	1960	1970	1975	1976	1977	1978	1979	1980
Billions of dollars:									
Total farm debt [1]	12.5	24.8	53.0	81.8	90.8	102.6	119.3	136.1	157.3
Total assets [1]	134.5	210.2	314.9	505.4	567.0	641.7	697.6	804.4	918.8
Net farm income	13.6	11.5	14.1	24.5	18.7	17.8	26.1	31.0	23.3
Percent:									
Debt-to-assets ratio	9.3	11.8	16.8	16.2	16.0	16.0	17.1	16.9	17.1
Debt-to-income ratio	91.9	215.7	375.9	333.9	485.6	576.4	457.1	439.0	675.1

[1] As of Jan. 1.

Mr. WHITTEN. What have been the changes in land values in major areas since 1971?

Mr. AHALT. Land values have trended upward sharply over the past decade, particularly in Corn Belt States and partly in response to expanding world demand for corn and soybeans. Land value increases likely slowed in 1980 with the decline in farm income, following an average increase of 15 percent from February 1979 to February 1980.

CHANGES IN LAND VALUES

[Percent 1967=100]

	1970	1972	1975	1976	1977	1978	1979	1980
Index of farmland value per acre: [1]								
Maryland	138	162	248	299	316	368	420	525
Wisconsin	124	148	240	271	322	381	446	513
Iowa	114	122	234	294	397	413	475	556
Nebraska	115	127	215	271	307	295	360	410
North Carolina	113	138	216	232	246	253	299	323
Georgia	138	175	298	299	322	357	386	432
Mississippi	125	129	204	205	217	249	279	338
Texas	119	138	193	213	228	252	282	327
Colorado	105	128	209	244	285	305	369	432
Arizona	127	159	211	217	227	237	254	305
Washington	124	130	178	213	249	268	297	312
48 States	117	132	213	242	283	308	351	404

[1] As of Mar. 1, 1969–75 and Feb. 1, 1976–80.

Mr. WHITTEN. What percent of income is spent for food in the United States and other selected countries?

Mr. AHALT. I will provide a table, with the most current data we have at this time, indicating the share of income spent for food in the United States and selected countries.

[The information follows:]

1978 SHARE OF TOTAL PRIVATE CONSUMPTION EXPENDITURES OF FOOD, BEVERAGES, AND TOBACCO

Country	Share of total expenditures (percent) [1]
United States	16.3
Canada	20.8
Japan	25.5

1978 SHARE OF TOTAL PRIVATE CONSUMPTION EXPENDITURES OF FOOD, BEVERAGES, AND TOBACCO—Continued

Country	Share of total expenditures (percent) [1]
France	23.1
Netherlands	22.1
Belgium	25.4
West Germany	[2] 26.5
Sweden	26.5
Denmark	27.5
United Kingdom	24.4
Spain	[3] 34.0
Portugal	50.1
U.S.S.R.	45.0

[1] Excludes food, beverages and tobacco purchased in restaurants and hotels as well as most institutional purchases, unless otherwise indicated.
[2] Includes purchases of alcoholic beverages and tobacco in restaurants and hotels.
[3] 1976.
[4] 1975.

Source: Organization for Economic Cooperation and Development.

Mr. WHITTEN. What is the dollar cost of food to consumers in the United States and other selected countries?

Mr. AHALT. I shall insert a table which shows prices for food in various world capitals as of July 1, 1980.

[The information follows:]

RETAIL FOOD PRICES IN SELECTED WORLD CAPITALS,[1] JULY 1, 1980
(In U.S. dollars per kg[2], or units as indicated, converted at current exchange rates)

Item	Bern	Bonn	Brasilia	Brussels	Buenos Aires	Can-berra	Copen-hagen	London	Madrid	Mexico City	Ottawa	Rome	Stock-holm	The Hague	Tokyo	Wash. D.C.	Median
Steak, sirloin boneless	19.14	14.78	3.22	13.74	6.64	8.53	19.51	14.48	8.43	4.17	7.47	11.20	7.01	13.30	34.29	8.31	9.86
Roast, chuck boneless	9.26	9.05	2.95	7.49	6.10	5.32	12.04	6.78	6.33	3.94	4.65	10.61	9.80	7.78	23.62	5.29	7.13
Pork chops	9.88	7.74	3.47	5.64	6.21	5.07	8.74	5.74	4.44	3.65	2.70	6.49	7.96	7.22	8.50	4.50	5.97
Roast pork, boneless	14.82	7.21	4.46	5.86	8.51	4.04	7.32	4.68	7.46	4.61	3.40	7.08	14.19	8.26	8.65	3.28	7.14
Bacon, sliced, pkgd	6.48	9.78	([3])	5.79	8.69	8.89	8.55	8.12	5.96	3.99	2.70	5.82	8.98	11.82	9.07	3.06	8.12
Broilers, whole	3.21	2.66	1.33	3.73	3.19	2.57	3.45	2.64	1.60	2.15	2.00	3.07	4.79	2.45	3.77	1.08	2.65
Eggs, dozen	2.41	1.63	.54	1.38	1.84	1.51	2.23	1.79	1.08	.74	.97	1.65	2.33	1.28	1.03	.72	1.44
Butter	8.80	5.15	3.40	5.33	7.02	2.57	4.50	4.16	7.33	4.82	3.18	5.68	4.18	4.80	6.36	4.67	4.81
Margarine	3.21	1.81	1.26	2.56	5.35	2.35	2.32	2.55	3.31	2.40	2.54	2.18	3.35	1.60	2.51	2.18	2.45
Cheese, cheddar	8.71	6.23	7.10	7.46	10.80	3.69	6.80	5.01	8.22	8.68	5.37	6.25	6.17	8.26	5.33	6.04	6.52
Milk, whole, liter	.83	.58	.37	.66	1.23	.52	.66	.66	.53	.38	.60	.65	.59	.54	.96	1.41	.62
Oil, cooking, liter	2.22	2.24	.79	1.74	3.40	2.21	2.88	2.01	1.45	1.31	1.91	1.11	5.33	1.38	2.06	4.78	2.03
Tomatoes	1.36	1.20	.58	1.21	3.24	1.03	4.10	1.77	.95	1.04	1.69	1.42	2.99	.65	2.13	1.30	1.33
Onions, yellow	1.24	1.28	1.38	.92	.90	.60	2.17	1.30	.54	.24	.80	.71	2.04	1.03	.88	.86	.91
Potatoes	.59	.39	.80	.28	.54	.42	.89	.47	.20	.38	.31	.41	1.20	.16	1.65	.79	.44
Apples	1.79	2.49	1.93	1.46	1.62	1.39	3.21	1.98	1.14	([3])	1.51	1.18	2.30	1.35	3.02	1.63	1.63
Oranges	1.67	1.13	.18	1.10	1.51	.53	1.83	1.20	1.36	.36	.77	1.77	1.58	.86	1.80	1.26	1.23
Bread, white, pkgd	2.10	.82	.89	1.21	2.16	1.16	2.49	1.09	.95	.72	.95	1.89	2.53	.75	1.86	1.43	1.18
Rice	1.17	1.52	.39	1.24	1.94	.87	1.87	1.42	1.25	.82	1.90	1.11	1.68	1.03	1.49	.84	1.24
Sugar	.83	.91	.39	1.17	1.39	.56	([3])	.83	.68	.59	1.17	.93	1.18	.91	1.27	1.21	.91
Coffee	8.89	10.72	2.93	9.12	11.34	12.87	10.92	11.67	7.64	4.59	8.99	9.37	9.00	7.43	14.85	6.37	9.06

1)A report from Paris was unavailable at press time. 2)1 kilogram=2.2046 pounds 3)Unavailable

Mr. WHITTEN. Please provide a summary of the hours and minutes of work required to purchase various commodities in selected world capitals.

Mr. AHALT. Americans work considerably fewer hours than consumers in other countries to earn money for food purchases, as indicated in a table that I will provide for the record. The numbers were compiled in 1978 and the trends they represent are valid today, despite actual food price increases around the world.

[The information follows:]

Time Spent by Workers To Earn Retail Value of Food Products in Selected World Capitals, Mid-1978[1/]
(Hours and minutes required to purchase 1 kilogram, except where other unit of measure is indicated)

City	Steak choice boneless	Roast choice boneless	Pork chops	Roast pork boneless	Ham canned	Bacon sliced pkgd	Broilers whole	Eggs dozen	Butter	Margarine	Cheese Cheddar Edam or Gouda	Milk whole liter	Oil cooking liter	Tomatoes	Onions yellow	Potatoes	Apples	Oranges dozen	Bread white pkgd	Rice	Sugar
Bonn	2:08	1:17	0:55	1:49	2/	1:26	0:20	0:13	0:41	0:22	0:52	0:05	:021	0:19	0:10	0:04	0:12	0:24	0:08	0:17	0:08
Brasilia	3:46	3:17	4:28	8:31	9:36	10:27	2:01	1:23	4:14	1:50	7:38	:30	1:48	:37	1:42	:55	2:20	:49	1:56	:55	:38
Brussels	1:47	:56	:48	:48	1:11	:45	:25	:11	:44	:38	:52	:05	:17	:20	:05	:03	:14	:19	:10	:10	:09
Buenos Aires	1:02	:35	1:28	2/	2/	3:25	1:02	:34	2:20	1:58	3:02	:12	1:30	:20	:24	:11	:33	:53	:33	:41	:28
Canterra	1:24	:46	:59	:58	1:28	1:21	:32	:16	:31	:28	:50	:07	:26	:18	:08	:05	:11	:29	:13	:13	:07
Copenhagen	1:46	:46	:56	:58	:46	:50	:18	:13	:26	:13	:43	:04	:17	:22	:10	:06	:16	:20	:13	:11	:11
London	3:20	1:39	1:27	1:14	1:12	1:34	:35	:24	:46	:35	1:00	:08	:34	:32	:10	:07	:32	:38	:14	:20	:10
Mexico City	3:55	3:47	3:48	5:08	2/	4:46	2:34	:40	4:29	2:04	9:38	:25	1:36	:58	:06	:26	2:15	:49	:47	:45	:23
Ottawa	1:02	:37	:46	:36	:53	:35	:22	:08	:26	:25	:44	:07	:17	:17	:07	:05	:16	:20	:08	:13	:04
Paris	2:43	1:32	1:55	1:53	2:49	3:12	:57	:27	1:23	:31	1:20	:09	:29	:35	:15	:06	:26	:44	:40	:29	:12
Pretoria	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/
Rome	2:32	2:13	1:16	1:16	1:15	1:16	:47	:23	1:08	:28	1:10	:08	:16	:19	:10	:05	:19	:53	:13	:19	:13
Stockholm	2:08	1:17	1:01	1:47	1:14	1:00	:35	:17	:32	:23	:53	:04	:46	:31	:13	:08	:16	:20	:19	:14	:08
The Hague	2:01	1:10	1:05	1:18	1:04	1:34	:24	:10	:45	:16	:57	:05	:16	:10	:05	:02	:07	:16	:07	:11	:08
Tokyo	6:11	4:14	2:18	2:19	2:50	1:35	:42	:13	1:79	:44	:52	:11	:29	:17	:07	:14	:38	2:54	:17	:17	:14
Washington	:51	:33	:44	:41	:67	:40	:14	:07	:34	:15	:53	:05	:23	:15	:05	:06	:17	:22	:11	:10	:07

1/ Mid-1978 national average for production workers calculated in local currencies.

2/ Not available.

Mr. WHITTEN. What has happened to U.S. agricultural exports and imports since 1971? What is the forecast for 1980/81?

Mr. AHALT. Agricultural exports have greatly outpaced imports since 1971. Diets in other countries have been upgraded to include more meat and this has sharply increased the demand for U.S. feedstuffs. Agricultural exports this year are forecast at $47–$49 billion, up from the 1979/80 record of $40.5 billion.

[The figures follow:]

U.S. AGRICULTURAL EXPORTS, IMPORTS AND TRADE BALANCE [1]

[In billions of dollars]

Item	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
Exports	8.2	15.0	21.6	21.9	22.8	24.0	27.3	32.0	40.5	47–49
Imports	5.9	7.8	10.0	9.5	10.5	13.4	13.9	16.2	17.3	17–19
Trade balance	2.3	7.2	11.6	12.4	12.3	10.6	13.4	15.8	23.2	29–31

[1] Year beginning October 1.

Mr. WHITTEN. What share of major U.S. crops have been exported since 1971?

Mr. AHALT. Export shares generally have trended upward, although increasing soybean exports from South America have meant increased competition in the second half of the 1970's. Gains in shares are forecast for all crops in 1980–81, except for cotton where dry, hot weather sharply reduced the 1980 crop.

[The figures follow:]

SHARE OF U.S. CROP PRODUCTION EXPORTED [1]

[In percent]

Commodity	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81 [2]
Wheat	38	73	71	57	55	44	55	67	64	64
Feedgrains	13	22	22	24	27	26	28	27	30	37
Rice	64	63	53	60	43	56	73	56	63	65
Soybeans [3]	49	53	50	49	50	59	54	54	53	59
Cotton	32	39	47	34	40	45	38	57	63	50

[1] Production is in 1st year of marketing year.
[2] Forecast.
[3] Exports include soybean equivalent of meal exports.

Mr. WHITTEN. What has been the source of income—on-farm and off-farm—for large and small farms since 1971?

Mr. AHALT. Smaller farms are much more dependent on off-farm income sources. In 1979, off-farm sources accounted for 96 percent of income to families on smaller farms, compared with 31 percent for those on larger farms.

[The figures follow:]

SOURCES OF U.S. FARM INCOME

[Thousands of dollars per farm]

Item	Farms with sales of $20,000 or more					Farms with sales under $20,000				
	1971	1973	1975	1977	1979	1971	1973	1975	1977	1979
Average family income:										
Off-farm	4.3	5.2	5.9	6.9	10.1	7.0	9.6	11.5	12.4	18.3

SOURCES OF U.S. FARM INCOME—Continued

[Thousands of dollars per farm]

Item	Farms with sales of $20,000 or more					Farms with sales under $20,000				
	1971	1973	1975	1977	1979	1971	1973	1975	1977	1979
Net farm [1]	14.6	31.3	21.3	16.7	22.9	2.1	2.8	2.2	2.3	2.8
Total	18.9	36.5	27.2	23.6	33.0	9.1	12.4	13.7	14.7	21.1

[1] Beginning with 1977, reflects the new definition of a farm, as a place having annual sales of agricultural products of $1,000 or more; for prior years, of sales for farms of less than 10 acres or $50 of sales for farms of 10 acres and over.

Mr. WHITTEN. How do output and productivity of the farm sector compare with non-farm enterprises since 1971?

Mr. AHALT. Farm output per man-hour continues well above the nonfarm sector, even though farm productivity declined in 1980 due to drought-reduced crop output.

[The figures follow:]

COMPARISON OF OUTPUT AND PRODUCTIVITY

[Percent, 1967=100]

	1971	1974	1975	1976	1977	1978	1979	1980 [1]
Output:								
Farm	101	106	114	117	121	122	129	124
Nonfarm business	110	124	121	129	137	144	148	147
Output per man-hour:								
Farm	133	132	143	144	156	153	160	155
Nonfarm business	106	109	111	115	116	117	116	115

[1] Preliminary.

Mr. WHITTEN. What quantities of various commodities were in Commodity Credit Corporation inventory at the end of 1980? How do these compare with 1975, 1970, 1965, 1955, 1950, 1945, and 1940?

Mr. AHALT. Commodity Credit Corporation inventories of most major commodities on October 1, 1980, were above those in 1975, but below the 1950's and 1960's. Dairy products are an exception, with very large inventories of dried milk and butter now being held.

[The information follows:]

QUANTITIES OF COMMODITIES IN CCC INVENTORY (AT END OF FISCAL YEAR, SEPT. 30, 1980–JUNE 30, IN PRIOR YEARS)

[In millions]

	1940	1945	1950	1955	1960	1965	1970	1975	1980
Bushels:									
Wheat	1.6	141.1	327.7	975.9	1,195.4	646.3	301.2	1.3	202.1
Corn	31.8	19.8	332.5	580.7	1,158.2	483.0	262.9	.2	256.3
Barley		1.6	31.5	73.5	71.1	19.5	48.6		3.5
Sorghum		1.9	23.1	92.2	570.1	564.3	163.2	.1	43.9
Oats		3.3	12.1	40.5	15.1	42.2	118.9	37.5	2.7
Soybeans			.1	7.8	20.4	[1]	45.5	[1]	[1]
Pounds:									
Peanuts [2]			5.67		16.6		.3	459.7	
Dried milk			362.9	197.8	209.9	282.6	133.3	403.0	689.8
Butter			161.6	273.9	105.4	159.0	139.3	59.1	300.4
Hundredweights:									
Rice			.6	12.2	6.6	1.3	8.4	[1]	2.2

QUANTITIES OF COMMODITIES IN CCC INVENTORY (AT END OF FISCAL YEAR, SEPT. 30, 1980–JUNE 30, IN PRIOR YEARS)—Continued

[In millions]

	1940	1945	1950	1955	1960	1965	1970	1975	1980
Bales:									
Cotton: [3]	.7	4.1	.8	1.7	5.0	6.6	1.9	[1]	[1]

[1] Less than 50,000.
[2] Farmers' stock.
[3] Upland cotton.

Mr. WHITTEN. Mr. Traxler has some questions which he would like answered for the record.

Mr. TRAXLER. Mr. Ahalt, you say in your testimony that farm income declined 25 percent during calendar 1980, while production expenses went up nearly 13 percent. To me this means that the American farmer continues to be plagued with cost increases and that he is often unable to offset the higher costs in farming in the same way that other businesses do: by raising prices. We are now hearing of proposals being made by some in the Office of Management and Budget that we eliminate or significantly modify many of the farm price support programs. Can you give me a general assessment of the importance of farm price support programs to farmers, and the impact of such programs on food prices?

RESPONSE. The role of price and income support programs has changed over time. Until the mid-1960's, these programs served to directly increase prices and, hence, farm income. Since then, they have assumed a much greater market orientation, allowing farmers to adjust to variations in prices and demand.

The greater market orientation of farm programs is most evident in the separation of price and income support functions for wheat and feed grains. Price support is now provided through a non-recourse loan that is set so it will not interfere with the workings of the market. Farm income is supported through direct payments made outside the marketplace. This system was initiated during the 1960's and extended to include cotton and rice in the 1970's. In the Food and Agricultural Act of 1977, a grain reserve program was added, with the ownership of commodities retained by the farmers. Individual programs were continued for dairy, peanuts, tobacco, soybeans, and the minor feed grains.

These various programs have been important to farmers. They have supported prices and incomes, brought stability to the marketplace, and provided a means for farmers to manage their marketings. In 1978, for example, it is estimated that the programs for major grains and cotton increased the cash receipts of participating farmers by nearly $1.5 billion. This amounted to about 5 percent of net farm income. Producers who chose to participate in the commodity programs could store their grain and receive a loan from the CCC. Those who participated in the farmer-owned reserve received multi-year marketing assistance. The reserve promotes market stability by absorbing additional quantities when supplies are excessive and adding to supplies when market conditions tighten. Farmers participating in the reserve receive a loan to assist in meeting their cash needs plus storage payments and sometimes receive interest waivers to assist with the costs of storage while market imbalances work themselves out.

Commodity programs have a far lesser impact on consumer food prices than the costs of marketing and processing food after it leaves the farm. If price supports are allowed to maintain commodity prices at levels higher than the market suggests, food prices are increased. For example, consumer prices of dairy products have been higher recently than they might otherwise have been if lower support levels had prevailed. However, for most of the grains, prices have not been supported at higher than market clearing levels. Consumer prices therefore, have not been affected very much by these commodity programs.

Mr. TRAXLER. The dairy price support program has also come into heavy criticism lately. Can you tell me what impact the dairy price support program has had on assuring an adequate supply of dairy products for consumers?

RESPONSE. Historically, the dairy price support program has operated to insure returns to producers at levels sufficient to provide consumers with an adequate supply of milk. Recently, however, the incentives to dairymen have become large and output has increased faster than commercial demand. This is evidenced by the present large surplus of dairy products. At the end of January, government stocks of

dairy products totaled 8.9 billion pounds (milk equivalent), compared with 3.5 billion a year ago.

Mr. TRAXLER. Some contend that the dairy price support program has helped consumers to be assured of adequate supplies of dairy products with a relatively consistent price structure, as opposed to the high and low roller-coaster that we have with non-supported commodities, such as sugar. Would you give me your assessment of the price stability created by the support program?

RESPONSE. The dairy price support program is designed to remove dairy products from the market during the surplus production period of the year and sell products back to the industry during the short production season. This helps stabilize prices by holding up prices during surplus production and moderating price rises in short production seasons. When surpluses are occurring throughout the year as they have been recently, prices to consumers are held higher than they would be without the program. Prices to consumers during the current surplus building have increased as support prices have increased, along with Government expenditures to remove products from the market reaching $1.3 billion in fiscal year 1980.

Mr. TRAXLER. Can you provide for the record a breakdown of exactly how much money farmers have received in fiscal 1980 as a result of farm price support programs? Please break this down by commodity, and identify whether the support is a result of cash payments, loans, imputed income as a result of low interest rates on loans, and the dollar value of commodities taken over by USDA when the market price failed to exceed the loan rate at the due date.

RESPONSE. The following table shows how much money farmers have received in fiscal 1980 as a result of farm price support programs (the information follows.)

COMMODITY CREDIT CORPORATION

FARM PRICE SUPPORT PROGRAMS FY 1980 (ACTUAL)

(thousands of dollars)

COMMODITY or PROGRAM	CASH PAYMENTS			LOANS				LOAN COLLATERAL ACQUISITIONS
	Direct Payments	Producer Storage Payments	Total	Commodity Loans Made	Commodity Loans Repaid	Storage Facility Loans Made	Storage Facility Loans Repaid	
Corn	$71,076	$223,023	$294,099	$1,139,657	-$815,755			$2,873
Grain Sorghum	94,272	11,814	106,086	118,399	-166,662			4,327
Barley	26,066	-1,188	24,878	54,164	-106,356			1,067
Oats	--	2,731	2,731	11,231	-27,570			159
Total Feed Grains	191,414	236,380	427,794	1,323,451	-1,116,343			8,426
Wheat	96,803	18,042	114,845	587,342	-565,224			--
Rice	1,398	-41	1,357	159,067	-180,038			--
Sugar	25,357	--	25,357	487,380	-728,144			106,291
Soybeans	--	--	--	549,116	-485,078			92
Cotton, Upland	103,068	--	103,068	401,537	-441,548			41
Peanuts	--	--	--	114,257	-87,714			15
Tobacco	--	--	--	171,963	-260,115			--
Emergency Feed Program	23,402	--	23,402					
National Wool Act	30,990	--	30,990					
All Other Commodities or Programs	2	--	2	71,512	-74,726	362,560	-215,573	573
TOTAL	472,434	254,381	726,815	3,865,625	-3,938,930	362,560	-215,573	115,438

NOTE: Imputed income to farmers, due to differences in rates charged on commodity loans vs. rates paid Treasury by CCC for its borrowings, is estimated at $53,400 thousand for 1979 crop loans made in FY 1980. This estimate, which is for the annual commodity loan programs only, is based on a weighted average cost of money to CCC of 12.125% vs. a 9.00% rate charged by CCC on 1979 crop loans.

ASCS/FMD/CPB
2/9/81

Mr. TRAXLER. Two years ago, Mr. Hjort provided me with a table showing the per capita income of farmers over a ten-year period in 1967 dollars. Can you update this table for the record?

RESPONSE. Yes. The record shows that real income of the farm population has gained relative to the nonfarm population in recent years, with income of the farm population actually exceeding nonfarm population income in 1979. But the decline in farm returns in 1980 meant per capita income of the farm population dropped to 84 percent of the nonfarm. (The figures follow.)

DISPOSABLE PERSONAL INCOME PER CAPITA—REAL DOLLAR BASIS

[In dollars [1]]

Item	1967	1972	1973	1974	1975	1976	1977	1978	1979	1980 [2]
Nonfarm population	2,788	3,085	3,205	3,155	3,172	3,257	3,328	3,417	3,385	3,291
Farm population	1,925	2,586	3,531	2,949	2,804	2,531,	2,899	3,287	3,466	2,750

[1] Real dollars—current dollars divided by Consumer Price Index for all items (1967=100).
[2] Preliminary.

Mr. TRAXLER. Additionally, Mr. Hjort provided another table which demonstrated the farm-retail price spreads for selected food items over a three-year period. Could you update this table on a three-year basis, using the food items listed in the table of two years ago, and expanding it to include other food items which may be highly processed, such as instant food mixes, frozen dinners and the like?

RESPONSE. I'll be happy to supply the farm-retail price spread information. I regret, we do not have adequate data to put together estimates for additional highly processed foods, such as instant food mixes and frozen dinners. You will note, in the case of bread, the farm value represents only 9 percent of the retail price, compared with more than one-half for most livestock and poultry products. (The figures follow.)

Retail prices, farm values; farm to retail price spread, and farm value share of retail price for selected foods, annual averages, 1978, 1979 and 1980

Food item and year	Retail price	Farm value	Farm to retail price spread	Farm value share of retail price
	--- Cents ---			- Percent -
Beef, choice (pound):				
1978	181.9	111.1	70.8	61
1979	226.3	140.8	85.5	62
1980	237.5	145.0	92.5	61
Pork (pound)				
1978	143.6	76.6	67.0	53
1979	144.1	66.6	77.5	46
1980	139.9	63.2	76.7	45
Broilers (pound)				
1978	66.5	37.2	29.3	56
1979	68.0	35.0	33.0	51
1980	72.0	38.0	34.0	53
Eggs, grade A large (dozen)				
1978	78.5	49.7	28.8	63
1979	85.9	53.7	32.2	63
1980	84.4	51.0	33.4	60
Milk, fresh, whole (1/2 gal.):				
1978	86.1	47.0	39.1	55
1979	96.0	52.5	43.5	55
1980	104.9	58.1	46.8	55
Butter (pound)				
1978	149.0	97.3	51.7	65
1979	168.6	111.6	57.0	66
1980	187.0	125.5	61.5	67
Potatoes, fall (10-pounds)				
1978	173.1	41.4	131.7	24
1979	167.3	40.3	127.0	24
1980	192.4	57.8	134.5	30
Oranges, California (pound				
1978	36.8	9.8	27.0	27
1979	43.8	13.2	30.6	30
1980	36.6	7.3	29.3	20
Lettuce, iceberg (pound)				
1978	45.6	12.0	33.6	25
1979	47.6	5.9	41.7	12
1980	45.8	4.4	41.4	10
Orange juice, frozen (12 ounce can)				
1978	83.7	40.3	43.4	48
1979	89.4	41.2	48.2	46
1980	87.4	35.8	51.6	41
Tomatoes, California, whole (pound)				
1978	37.6	4.8	32.8	13
1979	41.9	5.1	36.8	12
1980	42.2	4.5	37.7	11
Bread, white (pound)				
1978	41.7	3.3 2/	38.4	8
1979	46.7	4.2 2/	42.5	9
1980	50.8	4.6 2/	46.2	9

1/ The farm value is the gross return to farmers for the quantity of farm products equivalent to the unit sold at retail minus imported value of by products. Because of losses from processing, waste, and spoilage, the farm value represents larger quantities than the size of the retail unit.

2/ Wheat only; all farm ingredients were 5.4 cents in 1978, 6.4 cents in 1979, and 7.5 cents in 1980.

Mr. TRAXLER. You provided a table on page 59 of your statement which demonstrated the components of farm food expenditures on the whole. Have you ever done any studies which break down how each dollar is spent in the various USDA funded feeding programs?

RESPONSE. The following table indicates how the funds for food assistance programs are spent.

ANALYSIS OF FOOD ASSISTANCE COSTS, BY PROGRAM AND FUNCTION, FISCAL YEAR 1980

[In millions of dollars]

Program	Benefits	Administration costs	Other	Total
Food stamp program	8,694.1	381.3	[1] 81.5	9,156.9
Child nutrition	3,799.8	33.8	[2] 41.7	3,875.3
School lunch	2,103.8	.....	.....	.....
School breakfast	247.0	.....	.....	.....
Summer feeding	120.6	.....	.....	.....
Child care	215.8	.....	.....	.....
Commodities/cash	956.8	.....	.....	.....
Special milk	155.8	.....	.....	.....
Women, infants, children	591.5	143.7	.....	735.2
Commodity supplement feeding program	18.9	2.9	.....	21.8
Food donations program: Commodities in lieu of food stamps	34.3	.3	.....	34.6
Elderly feeding program:				
Commodities	15.6	.....	.....	15.6
Cash-in-lieu	56.3	.....	.....	56.3
Total	13,210.5	562.0	123.2	13,895.7

[1] Includes program costs such as food coupon issuance, printing, research and evaluation, etc. and a transfer to the Office of the Inspector General.

[2] Includes funds for equipment assistance, nutrition studies/surveys, and nutrition education and training.

Source: Food and Nutrition Service, USDA (January 15, 1981).

Mr. TRAXLER. Would you provide for the record a table which expresses what part of each dollar goes to labor, transportation, processing, packaging, and the farmer in each of the USDA feeding programs, including Food Stamps, School Lunch, School Breakfast, Women, Infants and Children (WIC), Commodity Supplemental Feeding Programs (CSFP), the Elderly Feeding Program, and the other feeding programs?

RESPONSE. The share of a food assistance dollar going to the various processes in food production is not readily discernible for all food programs. Most food assistance programs operate either by purchasing commodities directly for distribution (on a wholesale basis), or by some combination of cash and commodity assistance. The School Lunch, Breakfast, and Special Milk Programs are examples. However, the Food Stamp Program functions as an income transfer program; thus, food purchases can more easily be described in terms of the share of sales going to farm value, processing, and distribution.

Total Food Stamp Program benefits in fiscal year 1980 were $8.694 billion. The table below shows that 85 percent of food stamp purchases are for domestic foods consumed at home. Of this 85 percent, it is estimated that the farm value is equal to 39 percent of sales, while processing and distribution accounts for the remaining 61 percent; and marketing is comprised of transportation—9 percent, processing—30 percent, wholesaling—17 percent, and retail store costs—44 percent. (Additional information is found in the attached table.)

COMPONENTS OF RETAIL EXPENDITURES FOR FOODS PURCHASED IN THE FOOD STAMP PROGRAM

	Percent	Thousands of dollars
Food stamp pruchases:		
Domestic food consumed at home	85	7,389,985
Fish and imported foods [1]	15	1,304,115
Total food purchased		8,694,100
Food consumed at home:		
Processing and distribution	61	4,507,891
Farm value	39	2,882,094

COMPONENTS OF RETAIL EXPENDITURES FOR FOODS PURCHASED IN THE FOOD STAMP PROGRAM—Continued

	Percent	Thousands of dollars
Total value of food/home		7,389,985
Processing	30	1,352,367
Wholesaling	17	766,342
Transportation	9	405,710
Retail Stores	44	1,983,472
Total Marketing Costs		4,507,891

[1] Fish and imported foods is an approximate figure. Imported foods include sugar, coffee, imported fruits and vegetables, etc. It is estimated that U.S. distribution and processing probably takes 50 percent of sales, with the other 50 percent going to fishermen, and foreign producers, processors, and distributors.

Mr. TRAXLER. There have also been reports about the possibility of reducing financing for the Public Law 480 program. You describe farm exports as one of the major benefits of American agriculture. Can you tell me how over the years the Public Law 480 program has helped to promote the cash purchase of American farm products?

RESPONSE. Food aid—the Public Law 480 program—adds to overall economic development in recipient countries which will lead to increased future food and fiber imports on a commercial basis. Research has shown a direct link between economic development and increased agricultural imports and data on earlier Public Law 480 recipients shows that relationship. Many of the major Public Law 480 recipients in the early years of the program—Spain, Italy and Japan in 1955 to 1960—are now major commercial customers for U.S. farm products. Others like Taiwan and Korea have blended food aid and commercial sales, with the latter growing sharply. Taiwan received $395 million in food aid for 16 years and has now become a $1-billion, totally commercial market for U.S. agriculture. Some countries, like Indonesia, are currently turning the corner with the value of commercial U.S. agricultural imports exceeding the value of food aid shipments.

By providing supplies of needed commodities on easy credit terms to cash-poor countries, the U.S. food aid program meets humanitarian, economic development, political and market promotion goals. The visibility of U.S. products in these countries is a plus for future commercial purchases. An example of creating a demand for U.S. commodities is feed grains to Korea for the fledgling poultry industry and an example of retaining a demand for U.S. goods is Public Law 480 tobacco shipments to Zambia to keep its processing and manufacturing industry going when Zambia could not afford to import on commercial terms.

Mr. TRAXLER. Can you tell me how extensively each of the Titles of Public Law 480 has contributed to the growing of U.S. farm exports?

RESPONSE. Most of the market development benefit of the Public Law 480 food aid program has come from Title I, the long term credit sales program. Title I has accounted for 75 percent of the food aid program in its 25 years of existence. This title allows for deferred payment on easy credit terms of basic agricultural commodities. Half of the value of Title I shipments were wheat and wheat flour and the remainder was rice, cotton, soybean and cottonseed oils, feed grains and tobacco. Market demand for these commodities has been generated by providing supplies at deferred payments.

Title II is the grant program which provides foods for humanitarian purposes with no repayment. The bulk of the shipments (in terms of value) were wheat and wheat flour, nonfat dry milk and blended foods. These foods are distributed by nonprofit agencies, the World Food Program, or recipient governments to maternal and child feeding centers, school lunch programs, food-for-work projects and refugee centers for disaster victims. No immediate commercial benefit to the U.S. is derived from Title II as its purpose is to meet immediate disaster needs of the population and provide long-term nutritional benefits through ongoing programs. However, Title II indirectly contributed to the growth of U.S. farm exports by aiding overall economic development in the recipient country by creating a stronger economic base and a healthier population and by introducing U.S. foods, such as wheat-based foods.

Title III is relatively new and operates by providing U.S. agricultural commodities with no repayment obligation if the recipient country uses the funds generated by the local sale of the commodities for purposes or projects previously approved by the U.S. Government. The emphasis is on projects to promote agricultural and rural development and to improve the lot of poorest sectors of the population. The long-

term return to the U.S. will come from growth patterns. By providing a more diversified economic base and greater employment prospects in these countries the potential for U.S. cash exports to them is intensified.

Mr. TRAXLER. Mr. Sherman, while this question is not directly in the range of today's discussion, I am sure that you realize that emergency loan programs are important to farmers, including the program operated by the Small Business Administration. I am now being advised by farmers in Michigan who are applying for these loans that SBA is providing loan support for lost crops at prices which are in no way in tune with the reality of today's farm market. If the intent of the program is to help a farmer keep producing, then the loan must see to it that he can continue to operate at today's prices, not at those of 1979. SBA claims that the Farmers Home Administration sets these prices, and FmHA tells me that each State office has some leeway in establishing the loan rates in that State. Some States have apparently used 1980 prices which are somewhat realistic, while Michigan FmHA insists on using the "prior year's price," in this case 1979. Farmers just can't survive on the loan rates in use in Michigan, and SBA says it can't provide a larger loan unless FmHA raises its rates. What can we do right now to get the Michigan loan rates more in tune with reality? This Committee has never balked at providing funds for farm price support programs in the past, and I am sure that we will not now. But farmers need higher support prices in these emergency loan programs if they are to be able to continue at the same level in 1981.

RESPONSE. The emergency loan processing regulations currently provide that crop prices used for calculation of actual loss are based on the most accurate and reasonable data available at the time of emergency disaster designation. In most cases this data will be obtained from the State Crop and Livestock Reporting Service and will be for the calendar year immediately preceding the year in which the disaster occurred. If the disaster is designated toward the end of the crop year and the State Statistical Reporting Service has sufficient data on the current year, such data can be used for the calculations of actual loss. Regardless of whether current or past year prices are used, once the price basis is determined for a specific disaster designation, all loans made under that designation must be calculated on the same price basis.

Mr. WHITTEN. Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman. I will be very brief and want to thank you for that fine overview of what we might expect this year.

GROWTH OF EXPORTS TO DEVELOPING NATIONS

It was interesting to me that in terms of the export growth, a great deal of it, in recent times at least, has been in the developing world, in Africa, Latin America, Asia. And I presume it is fair to say that in terms of the potential for further growth that it lies more in that part of the world than it does in, let's say, Western Europe. Is that correct?

Mr. AHALT. That is a conclusion I think you can reach, Mr. McHugh, because the developing countries come from a very low level. And some of them, particularly the countries in Southeast Asia, have experienced very rapid growth in recent years and have very little land base on which to produce, particularly feedstuffs, so that they import large quantities of grain.

On the other hand, in most of the developed world—such as Western Europe in particular, our largest total market—population is not growing as rapidly, incomes are already at a high level, and they don't consume quite as much meat as we do. But there aren't the same kind of pressures, I believe, to upgrade the diet. In developed countries, there also is a system to protect their agriculture which limits our ability to grow further.

Mr. MCHUGH. I presume, then, from an economic point of view, and specifically with respect to our interest in expanding our export trade, that we have a direct economic interest in seeing

these countries develop, having their incomes go up, because as they do presumably the export markets for us will grow with them.

As you look at 1981 and beyond, do you see any problems there? For example, one of the things that I am sure is difficult for these developing countries is the price of oil, as it is for us. What do you see two or three years down the road, if it is possible to say, in terms of the likely expansion of that export trade in those developing countries, given the kinds of pressures on them, including population pressures, oil cost pressures, and so on?

Mr. AHALT. One of our major concerns has been how this current economic crunch and the rapid escalation of oil prices will affect their imports, the very question that you raise. In the mid-1970's, the evidence suggests rising prices didn't have much effect on slowing their demand for food. Therefore, we believe the impact on food imports will be less than what some others are saying because we believe food is basic to these countries, and the pressures to improve the diets are tremendous.

Nonetheless, they are going to need assistance, whether as credit from the United States or credit from some of the multi-national lending institutions because their exchange reserves get drawn down into the kind of situation that you describe.

Mr. MCHUGH. I serve on another subcommittee, one which deals with foreign economic and military aid, and it is undoubtedly the most difficult subcommittee in terms of getting an appropriation bill passed the House. Most Americans and many Members of Congress don't express very much support for foreign assistance.

But I do think a good, strong argument can be made that our development assistance is important in terms of advancing our own economic interests, because development in these countries is directly related to out export trade.

EMERGENCY WHEAT RESERVE

The only other question I have at the moment relates to the newly created emergency wheat reserve. Are you familiar with that, and can you tell us specifically whether or not that reserve has been stocked?

Mr. AHALT. I can only make the comment that the government has the grain, it has the approximate 4 million tons of wheat in that reserve. I am not sure whether or not all of the implementation is in place. I believe it is. But what I would like to do, Congressman, is to get you the facts on that and make it available, unless either of my colleagues can help me out on that. We will make it available to you.

[The information follows:]

On this past January 19 USDA announced that 4 million tons of CCC-owned wheat would be used to constitute the nation's first food security reserve. The reserve will ensure that the United States will be able to meet its priority food aid commitments to developing nations, even in years of short supply. Authorizing legislation for the food security reserve was passed by the Congress and signed by the President last December. The CCC already had acquired the 4 million tons of wheat comprising the reserve as a result of direct market purchases to help offset the suspension of sales to the Soviet Union. A small portion of the reserve—300,00 tons—can be used under Title II provisions without regard to domestic supply availabilities to meet urgent humanitarian relief in developing countries suffering a major disaster.

Mr. McHUGH. I would appreciate that. Thank you.

Thank you, Mr. Chairman.

Mr. WHITTEN. Mrs. Smith.

Mrs. SMITH. Mr. Chairman, I want to thank Mr. Ahalt for this fine overview. I don't think I will ask any more questions of you on this first date. But, Mr. Chairman, I would like to say to you that I am honored indeed to be a member of this committee. I am indebted to my good friend, Sylvio Conte, not only personally, but on behalf of my district and my state and our whole agricultural area.

I have been reviewing the proceedings of last year and the years before, and I am impressed with the tremendous amount of information, the history and development of this great agricultural industry, and the review of current crucial issues. Certainly, this whole committee can be gratified by the high level of stewardship in this area under your leadership, Mr. Whitten. I am honored to have a chance to serve with you, with Mr. Myers, Mr. Lewis, Mr. McHugh, Mr. Akaka, Mr. Watkins and the other members of the committee.

I want you to know that the minority members have held a caucus and it is our intention to continue to cooperate and work just as closely and in the same way that you and our good friend Mark Andrews did when he was ranking minority member.

It is a fulfillment of a deep hope to be on this committee. I was born on a farm, I have lived on a farm all my life, I have worked in agricultural organizations all my life, and I look forward very much to working with you and to being as helpful as possible. Your advice will be appreciated.

Mr. WHITTEN. We appreciate that statement very much. May I say for the record that the gentlelady from Nebraska hadn't waited to get on the committee before she got interested in agriculture in her service in Congress. She has been right in there all along.

The gentlemen from Hawaii.

Mr. AKAKA. Thank you very much, Mr. Chairman.

I, too, want to express my gratitude to you and to the caucus for my membership on this committee. I have a large interest in agriculture. People don't know that Hawaii had the largest cattle ranch in the world until the King's Ranch came along, and now we are the second largest cattle ranch in the United States.

Also, you know that Hawaii has sugar and pineapple, and now everybody knows about macadamia nuts, and there are other commodities that are coming forward. Hawaii is an ideal place for agriculture.

WORLD FOOD SUPPLIES

I am very concerned about the global supplies of agricultural products, and I say this because I served on the population committee. When you look at demographic projections. Our ability to meet world food needs seems to be an impossible task. So, we have our work cut out for us. To see that we are now very tight in our global food supplies worries me.

It also worries me when we look at domestic projections. I am hoping that we, as a legislative body, and the Administration will be able to work to increase production, increase land for farming,

and get more of our young people back into farming. Perhaps the people who will be best off in the future will be farmers.

COTTON PRODUCTION IN THE P.R.C.

But talking about the global matters, China is one that has been importing much of our cotton. Can you tell me, or others from your staff tell me, about China's plans for importing our cotton. What do they expect from us in the future?

I say this because I know China is one that makes its plans far in advance, and I just wonder what the consequence of this might be for the United States.

Mr. AHALT. Thank you, Congressman. I am going to ask my colleague, Jim Donald, who is an old hand at cotton and has been in the People's Republic of China, to comment on that.

Mr. DONALD. In general, future Chinese agricultural emphasis will be on the so-called commercial crops which include cotton, sugar, and oilseeds. They will emphasize production of additional cotton to meet more of their own needs. China is rapidly expanding its textile industry in an effort to both provide its growing population with more clothing and to increase textile exports. With Chinese mill demand substantially exceeding domestic cotton and manmade fiber production, large raw fiber imports have been required in recent years. In the case of cotton, we exported 2.3 million bales to China last season and exports will run slightly over 1.5 million in 1980/81. The outlook for the next few years points to continued U.S. exports of around 2 million bales a year. At the same time, the U.S. is importing large quantities of Chinese cotton textiles, most of which are now covered by quotas. Textile imports from China are likely to continue large during the next several years. Thus, the Chinese plan to emphasize the commercial crops more than the grains which they emphasized in the past. This is not to say the Chinese do not want to expand grain production, but the emphasis will be on improving grain yields.

Mr. AKAKA. Do you know whether they will expect the United States to purchase their textiles?

Mr. DONALD. Mr. Congressman, their intent is to become more sufficient on producing cotton for their textile industry, and they expect to clothe their own people better and to export to world markets, including the United States.

PRODUCTION OF COPRA

Mr. AKAKA. Let me ask one more or two more questions.

I notice that on page 40 you had one of the quantities listed as copra. My question is, where is that copra produced?

Mr. AHALT. In recent years, 4.5 to 5.0 million tons of copra have been produced. Of this total, about 70 percent is produced in the Philippines and Indonesia, with the Philippines accounting for 46 percent of the world total.

U.S. CONSUMPTION OF SWEETENERS

Mr. AKAKA. One more question. I asked the question about sugar and am very concerned about the future of sugar. You pointed out that there will be 5.1 million tons produced in the United States.

Traditionally, we have been getting sugar from sugar cane and from beets, and now we are turning more to substitutes. What do you expect to be the increase in sugar substitutes?

Mr. AHALT. I will ask Mr. Penn to respond to that.

Mr. PENN. Presently, the total U. S. consumption of sweeteners is about 13 to 14 million tons. We produce about 5.1 million tons of sugar and import about an equivalent amount. So, the remainder is made up of fructose, corn syrup and other sweeteners.

If you look to 1985, the other sweeteners are expected to take a much larger share of the market. I think the projections show that by 1985, high fructose corn syrup and other sweeteners could have 40 percent of the total sweetener market, and sugar could decline down to 56 percent from the 60- to 70-percent level that it is now.

Mr. AKAKA. Let me ask just one more question on the consumption in our country. How much sugar is being imported for consumption?

Mr. PENN. It is about 5 million tons, about the same amount as we produce.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. WHITTEN. Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman. I join you and the other members of the committee welcoming our new members of this subcommittee. Mrs. Smith, who is certainly no new member of the Appropriations Committee and certainly isn't new in her interest in agriculture, even though she hasn't been a seated member of this subcommittee, she has been a very active participant through the years that she has been in Congress and on the Appropriations Committee.

And we certainly welcome our colleague from California, Mr. Lewis, as well as our colleague from Hawaii and our colleague from Oklahoma. We have been eating these doggone sunflower seeds from North Dakota long enough. We have been pushing peanuts around long enough, too. The committee always has a keen interest in what is produced in members' districts, and there is only one way to find out, either go there or, second best, the cheaper way is to find out by you introducing your products to us.

THE FUTURE OF AGRICULTURE

We always appreciate your contributions here in getting out the crystal ball and gazing into it and keeping your fingers crossed, hoping for the best and hoping for good weather, because if anyone is dependent upon favorable weather, agriculture, of course, is.

I think all your charts could be best reflected in one on page 15, which reflects the prices received by farmers and those paid, and the solid line is, of course, one that we are having the most problem with and the one we have the littlest influence, at least individually we do have. Collectively maybe we can do something. But I think your forecast here about the gross income being up this year, of course depending upon the weather, ought to be accurate.

But what really concerns me is what we are going to do to curb expenses on the production of agriculture. With the interest rates now climbing double digits, petroleum bound to cost more, and all these things that are most necessary for production, I don't know what is going to happen to the future of farming.

There is one key, and that is find the best market we can in the world. I think we have to look outside. I have not been pleased in the past with our Department of Agriculture in many instances, as well as our State Department in promoting foreign markets. But the one in China that you gentlemen have been visiting, and others throughout the world, I think we need to develop these foreign markets, because I think ultimately we are going to have to produce more food instead of less and help supply some of the markets of the world. It may not be a good cash market today, but I think Japan is one of the better examples of a few years ago where we developed a market which wasn't profitable when we started. It wasn't even a cash market. But today it is about, I guess, our best market for agricultural products.

I think this is something that all of us have to concern ourselves about. But these forecasts are very important, I think, and they are not always optimistic, they are not always accurate. No one can tell what is going to happen this year, but we do appreciate your coming forth and telling us, if everything is normal, what we could expect.

Mr. AHALT. Yes.

Mr. MYERS. But since we have never had a normal year, at least in my lifetime we haven't, I guess we will just have to do the best we can. And we have to work from some basis, and so we thank you for your contributions.

Mr. AHALT. Thank you.

Mr. MYERS. We hope that you are more right than you presented to us as far as hope for agriculture.

Mr. AHALT. We appreciate that, sir.

Mr. MYERS. You know, that is one thing, too, as was mentioned a while ago about educating, and this certainly isn't your responsibility. But I think all of us have constituencies that don't realize the importance that agriculture plays in their lives. So often I have heard, traveling in cities particularly, well, you farmers got your problems, we don't worry about them, and they take food for granted because they can go to the grocery store and buy meat out of a package and other food canned and frozen, and they just take what agriculture produces for granted.

Somehow, we do have to educate the American people, the American consumers, that someone out there has to sit up with the old sows at night and make sure they farrow, and the cow when she is calving, and the ewes when they are lambing and all these things, and even worry about a crop, sometimes get out in the middle of the night when it is freezing, if you are down in the citrus area, and keep your strawberries from freezing, and smoke the other citrus to keep it from freezing and killing the plants. So, there is a lot of hard work and a heck of a lot of risk that goes into it besides capital investments, and I think that we all need to do everything we can to educate the American consumer that they have an interest also in the welfare of farmers and agribusiness.

Thanks for the good job.

Mr. AHALT. Thank you.

Mr. WHITTEN. Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman. I would like to express my thanks to you and the committee. I am delighted and enthusi-

astic about being on the committee. My background is agriculture. I was reared on a cattle and peanut farm. We lost everything to the drought. But I went off to college and still loved agriculture enough that I majored in it at Oklahoma State University.

Having been a product of the 4-H Club and the Future Farmers of America organization, I have come back home, so to speak. I am glad to be on the Agriculture Committee.

Mr. WHITTEN. We are glad to have you. As I said a long time ago, though, I learned to farm as early as anybody, and the best way to farm is to have a salary on the side.

PROBLEMS CONFRONTING AGRICULTURE

Mr. WATKINS. If I could ever get to the position, Mr. Chairman, where I could own a few of those oil wells in Oklahoma, I would go back into farming, and I would farm until I used it all up.

My interest, and my excitement has been dampened a little bit, because if we don't get a rain in the next 90 days—the next three months—we are going to see more "out migration" of people leaving the farm than we have seen since the 30's. I hope I am wrong.

The reason I asked you so pointedly about whether you had talked to Chairman Volcker is that you cannot run a mama cow and calf operation with a 20 percent interest rate. There is no way.

I see today where we have more credit and debt than we ever had before. Mr. Chairman, one way we have helped the farmers in the past, has been to extend their credit and their debt. Now, if interest rates continue in the high double digit range like the teens or the 20's, farmers are not going to be able to survive.

In my opinion, the farmer has lived the last couple of decades on the increased value of the land or in the equity of the land. But now the value of the land is not increasing at the rate that they are having to pay interest for on borrowed money.

The situation confronting the farmer today is one he hasn't had in the last two to three decades. I think you are going to see a lot of them having to bail out, even if we get a good rain.

I think you are optimistic with a lot of your figures, and I hope you are right.

I see no way that cattle production can be what you have indicated if it doesn't rain in the next 90 days. We are not going to have any grass. There is going to be an abundance of cattle going to the market. I hope you are right.

I know the drought of 1956, I left a peanut crop in the ground. One of the things I am very interested in on this committee is the thing we call bang's disease down home. I know the Chairman is familiar with it, and I want to discuss this in this committee at great length. As a youngster, I remember I lost nearly everything because of that disease. It is a hot situation today in the Chairman's state of Mississippi and my state of Oklahoma.

Have you seen any change in cotton consumption from textiles because of the increased prices of natural gas? I think it is being used in synthetic cloth.

Mr. AHALT. I will ask Jim Donald to respond to that question, Congressman Watkins.

Mr. DONALD. Higher gas prices have certainly resulted in increased production costs for both cotton and manmade fiber tex-

tiles. However, this is a relatively minor contributing factor to recent weakness in cotton textile production. Higher cotton prices relative to manmade fibers and sluggish consumer demand have been much more instrumental.

Mr. WATKINS. One other question. The biggest cash crop I have in my district is peanuts. You didn't address it. Any thoughts, comments or predictions on peanuts?

Mr. AHALT. The U.S. peanut crop really suffered last year in the drought, falling some 40 percent from the previous year. We are hopeful that we will get moisture between now and spring, as you point out, to improve yields. It is too early to know what kind of weather we will have in the area, but it is the reason, Congressman, that we included that map on page 31 to show the weather picture in late January, even though we have a long way to go until spring. But we are watching on a daily basis what is happening in the major U.S. growing areas because we can't afford another year like 1980. As you point out, we need good crops in 1981.

Mr. WATKINS. We have some peanut policies I hope we can change, too.

Mr. Chairman, thank you very much.

Mr. WHITTEN. Mr. Lewis.

Mr. LEWIS. Thank you, Chairman Whitten. It is a great pleasure for me to be with you.

I was thinking earlier today that 1948 was the last time when a member from California, Democrat or Republican, served on this subcommittee. That is not an indication that California isn't interested in agriculture, for we do have a few farms out there.

Like the Chairman, I spent a good deal of my youth, in this case, on a small date farm in Indio, and my father advised me to get out before it went broke. Eventually that area came back, so that the Cochella Valley now produces a big part of the salads for the East in the wintertime. I had ramaki last night with dates in the center, instead of liver, and that product comes from my district.

I have had occasion to be very grateful to the subcommittee—for many of the eggs of the country are produced right in my district. And when the New Castle disease came along a few years back, your assistance and concern and interest was of no small benefit to my own people.

I kind of believe, Mr. Chairman, that freshmen members who haven't been on the farm for a while ought to be seen largely, and the education today has been very helpful. I am going to express a lot of interest in some of these patterns as they break down to California, and I would like to do that independently, with a great deal of emphasis upon the export marketplace—what is happening in Latin America and the like.

Another area, Mr. Chairman, I don't know how much the committee has addressed itself to in the past, is a problem of California that is one of great concern. With the evaporation of prime agricultural land, what role we should play in that whole subject area? What some of the patterns are from the Department's viewpoint would be helpful to me.

Most important, I appreciate today and look forward to spending a lot of time with all of you.

Mr. WHITTEN. We are indeed glad to have all of the new members, as well as to be back ourselves. From reading the press we see lots of things that disturb us. Over the years I have had many Secretaries of Agriculture say they could talk to the President only in walking to the White House swimming pool or something like that, which is the fault of our system and not the man who happened to be President. I don't mean that will happen now. We have taken for granted that we will have surpluses, and though we do worry about supply, the country as a whole and the people as a whole don't know what being short of food is, and neither do I. But it makes for a problem when we see a President inaccessible to agricultural issues.

I read where the new budget director had indicated this was a good year to write a new farm program, because farming by and large was in good shape. It brings to mind the 1950's when we held an umbrella over the world price by not selling our domestic production at competitive prices. I recall Senator Aiken's bill proposed flexible parity at that time.

What that provided was that if you had more than you needed, you had higher price supports. You had low price supports so you would quit producing so much. If you had shortages you had poor price supports to get you to produce. So, you helped the farmer when he didn't need it and you didn't help him when he did.

I repeat again that the producer of agricultural commodities has higher and higher priced land, bigger and bigger investments, and has to buy on the market where industry and labor are getting a bigger and bigger share of the consumer dollar; that much of what we call subsidies to the farmer is actually a payback for that part of the dollar that he has lost to industry and labor, mostly through laws that give the authority to organize and strike and to raise prices.

But anyway, whichever way you take it, you can't get away from the fact that our agriculture with its few people is the biggest market for labor and the way to produce the most economical supply to the consumer.

Not only that, but now we see that agricultural products are the one thing that we can export to offset oil imports. I don't know who first said it, but the ability to produce food is probably the greatest weapon we have in this competitive world. You might think it is the military, but check the facts and figures.

May I say again, we appreciate your appearance here. You are our facts and figures men, and we will get to the policy people and the programs later, where we will dig into other things. We haven't done that too much today because you report what is and why and all that kind of thing.

You have made a nice showing and we appreciate it very much.

Mr. AHALT. Thank you, Mr. Chairman.

[CLERK'S NOTE: The prepared statement follows:]

FOR RELEASE ONLY BY THE
HOUSE COMMITTEE ON
APPROPRIATIONS

STATEMENT BY
J. DAWSON AHALT
CHAIRMAN, WORLD FOOD AND AGRICULTURAL
OUTLOOK AND SITUATION BOARD
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON AGRICULTURE, RURAL
DEVELOPMENT, AND RELATED AGENCIES
FEBRUARY 4, 1981

Cautious optimism dominates the outlook for agriculture in 1981.

Expectations for this year diminished late in 1980 as soaring interest rates, larger-than-expected meat supplies, and favorable Southern Hemisphere crop developments reduced commodity price levels. Yet, there is little doubt that 1981 will be a better year than last for U.S. farmers, and net farm income may approach record 1979 levels.

This first step in restoring economic health, however, should not be viewed as evidence that all is well in U.S. farming. Rising production costs continue to cut into farmers' growing cash flow and undermine their economic well-being. A less-than-robust general economy continues to be buffeted by inflationary pressures affecting agriculture and other sectors alike.

As 1981 begins, we face tight global supplies of feed grains, oilseeds, and cotton. U.S. feed grain suppliers are looking at expanding export markets that should be adding some price strength in the coming months. At the same time, the domestic livestock industry is suffering from depressed prices that are not supporting increased feed costs. Although livestock prices are projected to rise, they aren't expected to average as much above a year ago as feed costs.

The soybean situation is sensitive now to growing conditions in Brazil and Argentina and, on the demand side, to the political uncertainty in Eastern Europe. Some recovery in production could help rebuild cotton stocks during 1981/82 from projected August 1981 levels that are the lowest in 4 years for the world and in nearly 30 years for the United States.

The wheat situation varies somewhat from that for the other major commodities, with fairly comfortable stock levels and the early prospect of another large world wheat crop in 1981. Competition for export markets could increase as a result.

Issues affecting the 1981 agricultural outlook are reviewed in the charts and discussion which follow.

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Farm Income and Finance

* Net farm income declined by 25 percent in 1980. Gross farm income increased slightly, less than 4 percent, or $5.3 billion, but was offset by a substantial rise in production expenses of nearly 13 percent, or $13 billion.

* Increases in gross farm income from cash receipts came totally from the crops sector--livestock receipts in 1980 actually declined slightly. Gross farm income in 1981 should increase $18-$26 billion with commodity prices averaging above depressed 1980 levels. Larger receipts are expected from both crops and livestock with production expenses likely to increase 12-15 percent. This would push net farm income into the $28-$32 billion range, close to the 1979 level.

* Cash receipts in 1981 are likely to be up $13-$23 billion, with livestock accounting for about two-thirds of the gain. Crop receipts in the first half will continue to exceed 1980 levels. With average yields for 1981 crops here and abroad, strong world demand would boost overall crop receipts well above year-earlier levels. Receipts to livestock producers are expected to improve as we move through 1981.

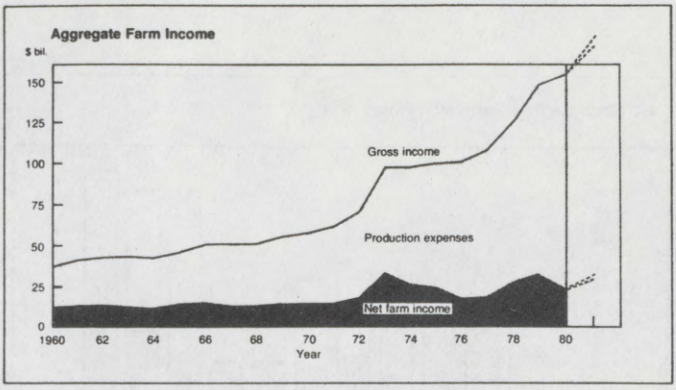
* In 1981, production expenses are expected to increase $13-$17 billion, with rising costs of inputs of farm origin, such as feed and feeder livestock, as well as nonfarm origin inputs, especially petroleum-related products. Farmers' expenditures for energy rose from $1.7 billion in 1972 to $8.4 billion in 1980. An advance of more than 15 percent is in prospect for 1981.

* Income from all sources for the farm population declined in both nominal and real terms last year. Total real per capita disposable income of the farm population from all sources in 1980 dropped below 1977 levels after reaching a record in 1979. The gap between real income of farm and nonfarm populations widened dramatically in 1980 due to sharp declines in returns from farming, eliminating almost all progress since 1976 in bridging the gap between real income of farm and nonfarm populations.

* The prime interest rate hit record highs twice in 1980. Interest rates facing farm borrowers fluctuated widely in 1980 and averaged record high. The combination of higher interest rates and the rising farm debt has increased farm interest expenses more than five-fold since 1970. Although interest rates moved back up late last year, currently some relief is expected before the seasonally heavy farm-borrowing period this spring. However, interest rates will still be high, and those farmers with additional debt due to last summer's drought may face severe financial stress.

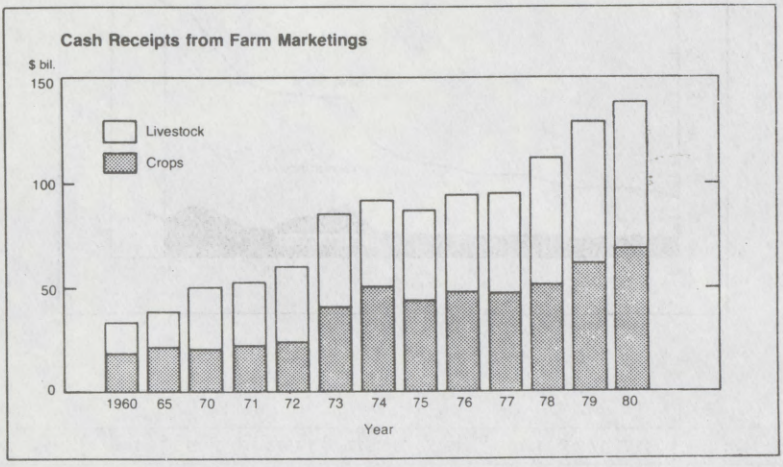
* Total farm debt exceeded $180 billion on January 1, 1981, almost 15 percent above a year ago. Real estate and nonreal estate debt (including CCC) rose 17 and 12 percent, respectively. Increases in farm real estate debt resulted from the combination of higher farm real estate values and refinancing of some production loans using real estate as security. The rise in nonreal estate debt mainly reflects the inflationary pressures that are pushing production expenses up.

* Federal land banks are the dominant source of farm real estate lending and hold over one-third of the outstanding farm real estate debts. Banks continue to be the largest lenders of farm nonreal estate debt but are losing market shares to Production Credit Associations and the Farmers Home Administration. Loans by the Farmers Home Administration have increased dramtically in recent years because of their emergency loan programs. Although interest rates are high, the credit shortages experienced last spring are not expected to be repeated in 1981. Federal Reserve Board information suggests that the liquidity of agricultural banks has been improving since mid-1980.



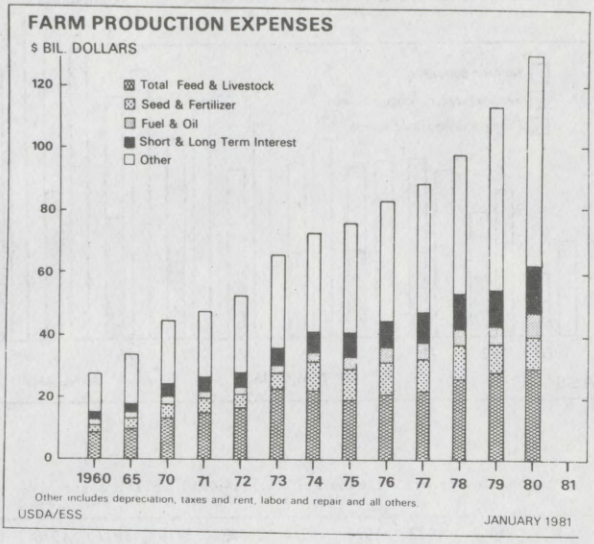
Item	1965 1/	1970	1975	1977	1978	1979	1980	1981 2/
Gross income	46.5	58.6	100.3	108.1	126.9	149.6	154.9	173-181
Expenses	33.7	44.4	75.9	90.3	100.8	118.6	131.6	145-149
Net farm income	12.9	14.1	24.5	17.8	26.1	31.0	23.3	28-32

1/ Calendar year. 2/ Forecast.



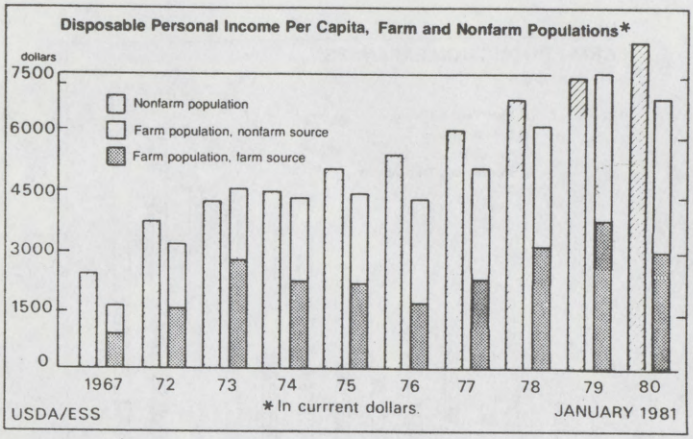
Item	1965 1/	1970	1975	1977	1978	1979	1980	1981 2/
Livestock	21.9	29.6	43.1	47.4	59.0	68.6	69.1	78-83
Crops	17.5	21.0	45.2	48.3	53.5	62.8	71.4	75-80
Total	39.4	50.6	88.3	95.7	112.5	131.4	140.5	153-163

1/ Calendar year. 2/ Forecast.



	1970	1975	1977	1978	1979	1980	Forecast 1981
			- - - Billion dollars - - -				
Feed and livestock purchased, total	12.3	17.6	21.0	24.4	29.7	30.8	35.0-37.0
Seed & fertilizer, total	3.2	8.5	8.9	9.1	9.9	11.4	13.0-15.0
Fertilizer	2.3	6.2	6.0	6.0	6.5	7.7	9.0-10.0
Fuels and oils	1.7	3.3	4.4	4.6	6.3	8.4	9.0-11.0
Short & long term interest	3.4	6.4	8.3	10.0	12.8	16.3	15.0-17.0
Taxes and rent	4.7	7.9	8.0	8.9	9.6	9.7	10.0-11.0
Depreciation	6.8	12.6	15.3	16.6	18.9	20.8	22.0-24.0
Other 1/	12.3	19.5	24.3	24.5	31.3	34.2	36.0-38.0
Total production expenses	44.4	75.9	90.3	98.1	118.6	131.6	145.0-149.0

1/ Other expenses includes hired labor, repair and all other expenses.

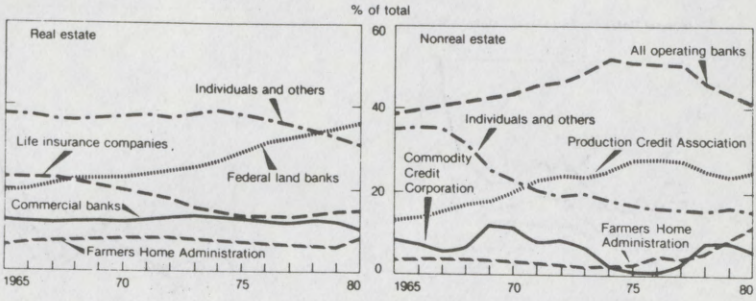


Disposable Personal Income Per Capita--Real Dollar Basis

Item	1967	1972	1973	1974	1975	1976	1977	1978	1979	1980 1/
	----- Dollars 2/ -----									
Nonfarm population	2788	3085	3205	3155	3172	3257	3328	3417	3385	3291
Farm population	1925	2586	3531	2949	2804	2531	2899	3287	3466	2750
Net farm	936	1261	2110	1525	1378	1055	1275	1609	1800	1174
Nonfarm sources	989	1328	1421	1423	1426	1477	1624	1677	1666	1576
Farm as percent of nonfarm	69.0	83.9	110.2	93.5	88.4	77.7	87.1	96.2	102.4	83.6

1/ Preliminary.
2/ Real dollars--current dollars divided by consumer price index for all items (1967 = 100).

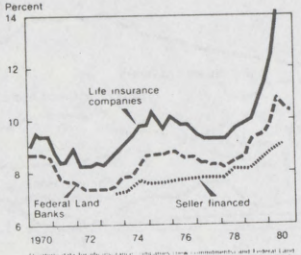
Who Holds The Farm Debt



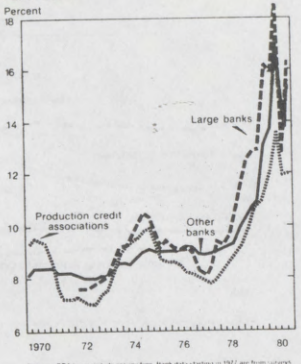
Production Credit Association includes Federal Intermediate Credit Bank loans to other financial institutions. 1980 preliminary

	1976	1977	1978	1979	1980	1981
	- - - Billion dollars - - -					
Farm debt outstanding on Jan. 1:						
Real estate	51.1	56.6	63.7	70.8	82.1	96.1
Nonreal estate (excluding CCC loans)	39.4	45.1	51.2	60.0	70.7	79.7
Commodity Credit Corporation loans	.3	1.0	4.5	5.3	4.5	4.7
Total farm debt	90.8	102.7	119.4	136.1	157.3	180.5

Interest Rates on Farm Real Estate Loans



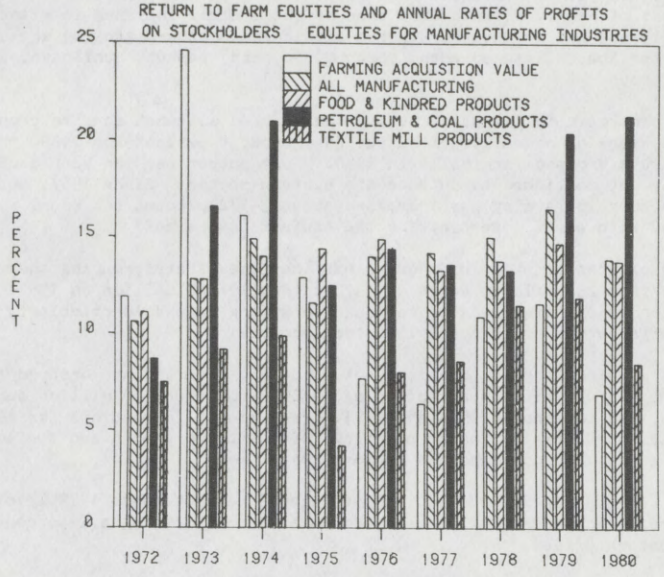
Interest Rates on Nonreal Estate Farm Loans



Yearly Average Interest Rates on Farm Loans

Item	1970	1975	1976	1977	1978	1979	Preliminary 1980
Nonreal estate*	8.89	9.25	8.87	8.46	9.47	11.81	14.52
Production Credit Assn.	9.45	9.13	8.35	7.90	8.75	10.58	12.73
Large banks	NA	9.60	9.13	8.55	10.25	13.60	15.88
Other banks	8.33	9.03	9.13	8.93	9.40	11.26	14.95
Real estate*	9.01	8.79	8.73	8.49	8.64	9.41	10.95
Seller financed	NA	7.60	7.70	7.80	7.95	8.50	9.10
Federal land banks	8.68	8.73	8.68	8.35	8.38	9.20	10.40
Life insurance companies	9.33	10.03	9.80	9.33	9.58	10.53	13.35

*Arithmetic average, not weighted.



Year	Farming: Current value	Farming: Acquisition value	All manufacturers	Food and kindred products	Petroleum and coal products	Textile mill products
	Percent					
1972	5.6	11.9	10.6	11.1	8.7	7.5
1973	11.0	24.6	12.8	12.8	16.6	9.2
1974	6.2	16.1	14.9	14.0	21.0	9.9
1975	5.1	12.9	11.6	14.4	12.5	4.2
1976	2.9	7.7	14.0	14.9	14.4	8.0
1977	2.2	6.4	14.2	13.3	13.6	8.6
1978	3.8	10.9	15.0	13.8	13.3	11.5
1979	4.1	11.6	16.5	14.7	20.4	11.9
1980	2.4	6.9	13.9	13.8	21.3	8.5

Manufacturing returns are after corporate taxes have been deducted. Returns are based on acquisition cost. Data are taken from various issues of the Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, Federal Trade Commission. Returns to farm equity were calculated by Bruce Hottel, USDA. All estimates for 1980 are preliminary.

Aggregate Output and Prices

* U.S. crop output in 1980 fell about 9 percent from 1979's record. A drop in yields of nearly a tenth more than offset a small increase in plantings. Unusually hot and dry weather in the middle and southern growing areas of the United States damaged corn, sorghum, soybean, peanut, sunflower, and cotton crops.

* A 3-percent gain in livestock output compensated somewhat for the crop decline, leaving overall farm output down about 4 percent for 1980. Use of farm inputs dropped marginally in 1980. Farm output per man-hour declined slightly but continued to outpace the nonfarm sector. Since 1967, output per man-hour in farming has increased about 3-1/2 percent per year, compared with about 1 percent for the nonfarm businesses.

* Acreage planted to major U.S. crops has increased sharply during the past decade, from 232 million acres in 1970 to nearly 300 million in 1980. This expansion in plantings was in response to strong demand, particularly for feedstuffs abroad to increase livestock production.

* To meet growing markets, cropland set aside and diverted has dropped from an average of 52 million acres during 1970-73 to around 10 million during 1977-79, and to zero in 1980 and 1981. Preliminary indications for 1981 point to substantially larger plantings of wheat, more corn and sunflowers, and slightly less soybeans and cotton.

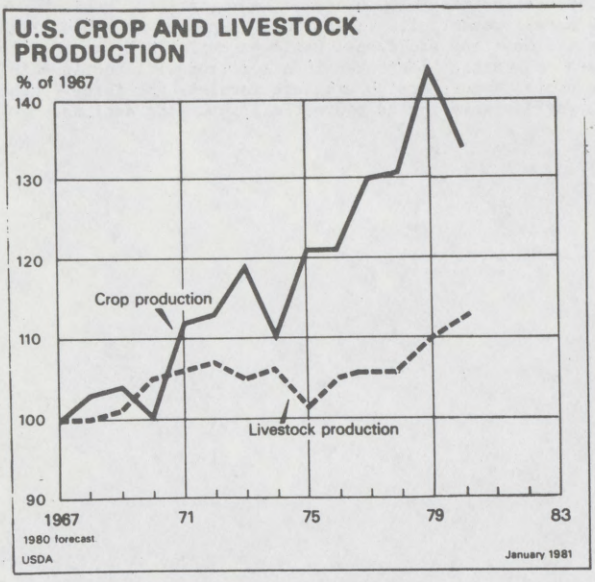
* Prices received by farmers in 1980 averaged 2 percent above 1979 levels, with crop prices rising 7 percent and more than offsetting a 2-percent drop in livestock prices.

* While prices received for farm products rose only slightly last year, prices paid by farmers advanced 12 percent and put most farmers in a tight price-cost squeeze. The overall increase was led by rises of almost 40 percent in energy and fuel prices and nearly a fourth in fertilizer prices, while prices for machinery, chemicals, and taxes continued their persistent upward pattern.

* Farm product prices in 1981 are expected to average higher, due to the tight global supply-use balance for grains, oilseeds and cotton and the expected recovery this spring in cattle and hog prices; but prices paid also will show a sharp advance. Interest, fuel, energy, and fertilizer costs will continue to rise.

* Prices for farm products fluctuated widely in the past decade and rose at an average annual compound rate of 8 percent, well above the 2-percent annual rate of the 1960's. In 1980, however, gains in farm prices lagged slightly behind those for consumer goods, excluding food. Fuel and energy costs surged in the mid-1970's, averaging about a 20-percent annual growth rate in the 1970's compared to a near 5-percent annual rate in the previous decade.

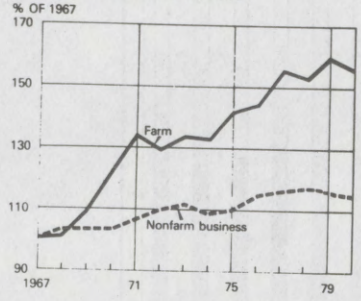
* Following a dismal performance in 1980, world economic growth is expected to improve modestly this year. However, most nations' real output will be well below normal potential. Inflation is expected to abate slightly due to restrictive monetary and fiscal policies employed by much of the Western world. Even so, further increases in oil prices will continue to push up production costs, erode foreign exchange earnings and force further borrowing, particularly in the poorest oil importing nations.



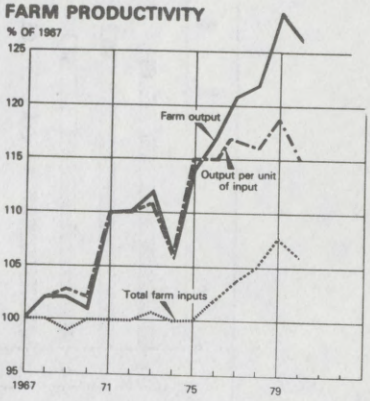
	1970	1975	1976	1977	1978	1979	1980
	Percent of 1967						
Farm output	101	114	117	121	122	129	124
Crops	101	121	121	130	131	144	131
Livestock	105	101	105	106	106	110	113

FARM OUTPUT AND PRODUCTIVITY

OUTPUT PER MAN-HOUR, FARM AND NONFARM BUSINESS



FARM PRODUCTIVITY



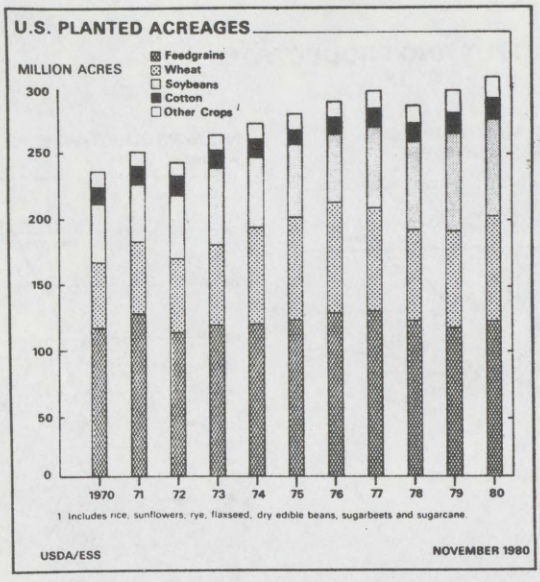
1980 Forecast.

USDA/ESS

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	1975	1976	1977	1978	1979	1980 1/
			--- Percent of 1967 ---			
Farm output	114	117	121	122	129	124
Crop	121	121	130	131	144	131
Livestock	101	105	106	106	110	113
Farm inputs	100	103	105	105	108	106
Output per man-hour						
Farm	143	144	156	153	160	155
Nonfarm business	111	114	116	117	116	115

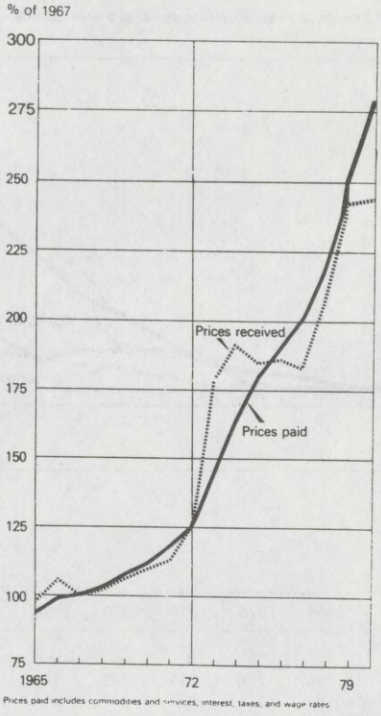
1/ Preliminary.



	1970	1975	1976	1977	1978	1979	1980
			- - - Million acres - - -				
Feedgrains	118.8	122.6	128.6	129.4	124.3	118.8	121.7
Wheat	48.7	74.9	80.4	75.4	66.0	71.4	80.4
Soybeans	43.1	54.6	50.3	59.0	64.7	71.6	70.1
Cotton	11.9	9.5	11.6	13.7	13.4	14.0	14.6
Other crops	9.8	10.3	9.0	10.3	11.1	13.8	12.9
Major crop plantings, total 1/	232.3	271.9	279.9	287.8	279.5	289.6	299.7
Set-aside & diverted	57.1	2.4	2.1	1.0	17.0 3/	11.8 2/	---

1/ Includes corn, sorghum, barley, oats, wheat soybeans, cotton, rice sunflowers, rye, flaxseed, dry edible beans, sugarbeets, and sugarcane. 2/ Does not include 1.2 million acres of wheat in special grazing and hay program in 1978 and an estimated 0.9 million in 1979.

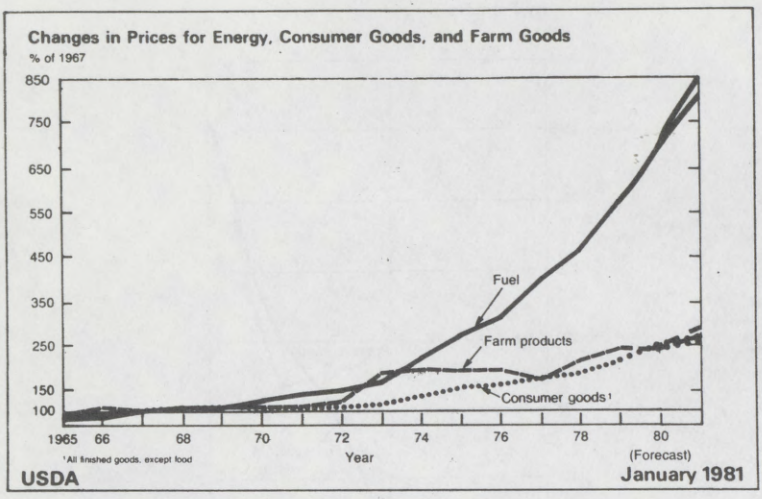
Prices Received and Paid By Farmers



Prices paid includes commodities and services, interest, taxes, and wage rates

	1973	1974	1975	1976	1977	1978	1979	1980
			- - - Percent of 1967 - - -					
Prices received (all commodities):	179	192	185	186	183	210	241	245
Crops	175	224	201	197	192	204	223	239
Livestock products	183	165	172	177	175	217	257	251
Prices paid	144	164	180	191	202	219	250	280
Wage rates	155	178	192	210	226	242	265	286
Machinery 1/	137	161	195	217	238	259	289	323
Energy and Fuels	116	159	177	187	202	212	276	380
Fertilizer	102	167	217	185	181	180	196	243

1/ Tractors and self-propelled machinery.



Item	1965	1970	1975	1977	1978	1979	1980	1981 1/
Producer Price Index:								
Consumer goods 2/	96	108	153	172	184	208	249	268-274
Fuel	94	123	272	400	464	568	710	815-850
Prices received for all farm products	98	110	185	183	210	241	245	275-290

1/ Forecast. 2/ All consumer goods, except food.

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World Economic Indicators

Country/area	Change in real gross national product			Change in consumer price index		
	1979	Prelim. 1980	Forecast 1981	1979	Prelim. 1980	Forecast 1981
	---- Percent ----					
United States	3.2	-0.1	0.5	11.3	13.5	10.4
USSR	2.0	2.5	2.5	---	---	---
East Europe	1.7	1.4	1.7	---	---	---
EC-9	3.5	1.3	1.5	8.7	11.8	11.0
Japan	6.0	5.0	5.0	3.5	8.0	8.0
Canada	2.8	0.6	2.0	9.2	11.0	10.0
Australia	2.5	2.5	3.0	9.0	10.5	10.0
South Africa	3.2	7.5	5.5	14.2	14.0	15.0
Brazil	6.5	6.5	5.0	77.0	95.0	50.0
Argentina	8.0	5.0	5.0	140.0	90.0	50.0
India	3.0	5.0	4.0	8.6	13.0	12.0
LDC's:						
Asia	3.3	5.4	5.0	14.1	16.1	15.0
Latin America	6.5	5.8	5.5	59.0	56.0	45.0
OPEC	0.1	-3.9	---	17.0	20.7	---
OECD	3.4	1.3	1.4	8.5	11.3	11.0

Source: Consensus Forecasts in early 1981.

--- = Not available.

U.S. Agricultural Exports

* Exports of U.S. farm products are projected at a record $47-$49 billion in fiscal 1981, compared with $40.5 billion in fiscal 1980. The developed market economies of Japan, Western Europe, and Canada combined will again take more than half of all U.S. agricultural exports on a dollar basis in 1980/81. African and Latin American nations will account for nearly a fifth of U. S. farm exports and Asia (excluding Japan and China) about 17 percent.

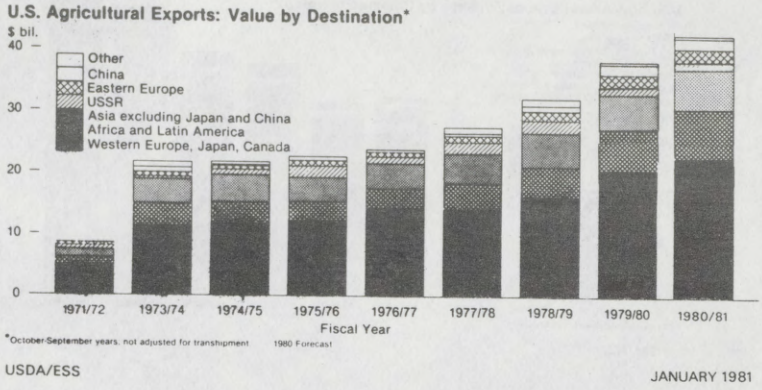
* Export volume is expected to reach more than 169 million metric tons in 1980/81, exceeding last year's record 163.9. Grains make up more than 70 percent of U.S. agricultural export volume and have accounted for three-fourths of the growth in tonnage moved abroad over the past decade. Oilseeds and products remain the second largest component of U.S. export volume.

* The U.S. share of world grain trade is expected to expand slightly in 1980/81 while the share of world trade in soybeans may slip from the 1979/80 level. Cotton exports are projected to drop considerably because of tight supplies and high prices.

* More than half of this year's production of U.S. wheat, rice, soybeans and cotton will be exported in fiscal 1981, along with about 37 percent of domestic feed grain output.

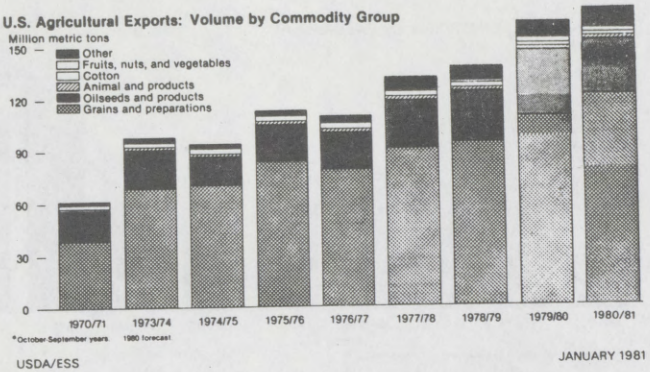
* The agricultural trade balance moved upward again in 1980, reaching a $23.6-billion surplus compared with a nonagricultural trade deficit of $50 billion for the calendar year. Petroleum remains the main factor in the slide in the nonagricultural balance that began in 1974.

* Expanding exports of grain and soybeans continue to strain the U.S. transportation system. As a result of delays in the movements of barge traffic to Gulf Coast ports, an increasing volume of corn has been moving by train from the western Corn Belt to West Coast ports. The Asian demand for U.S. grain has also been a factor as the West Coast's share of exports of those commodities has risen from 9 percent in 1977 to 17-1/2 percent in 1981.



Destination 1/	1971/72	1972/73	1973/74	1977/78	1978/79	1979/80	1980/81 Forecast
	--- Billion dollars ---						
W. Europe, Japan & Canada	5.00	8.45	11.44	14.46	16.57	20.17	23-25
Africa & Latin America	1.05	1.75	3.58	4.38	4.91	7.76	8-10
Asia (excluding Japan & China)	1.63	2.43	4.03	4.91	5.72	6.51	7-9
USSR 2/	.27	.96	.34	1.87	2.18	1.46	1.6
Eastern Europe	.24	.46	.68	1.14	1.52	2.44	2-3
China	0	.43	.84	.37	.92	1.96	2-3
Other	.05	.50	.70	.16	.16	.19	.1-.3
Total	8.24	14.98	21.61	27.29	31.98	40.48	47-49

1/ October-September years; not adjusted for transshipments. 2/ 1980/81 Forecast based on shipment of 8 million tons

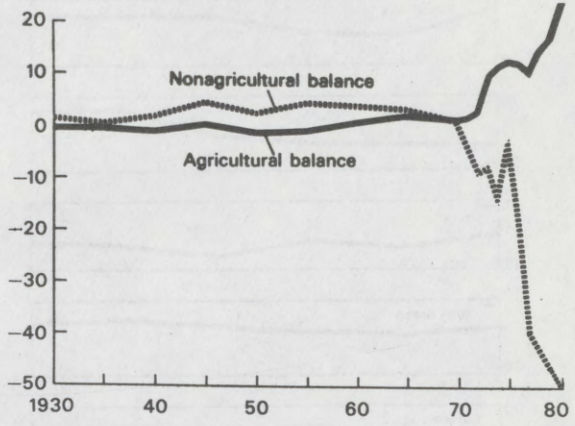


Commodity group 1/	1970/71	1972/73	1973/74	1977/78	1978/79	1979/80	1980/81 2/
			---Million metric tons---				
Grains & preparations	39.9	78.6	68.8	92.0	95.4	112.3	119.6
Oilseeds & products	17.4	18.9	21.9	28.0	29.4	35.6	31.5
Animals & products	1.6	1.4	1.6	2.1	2.0	2.4	2.5
Fruits, nuts, veg.	1.9	2.4	2.5	2.9	2.8	3.1	3.3
Cotton	.9	1.2	1.2	1.3	1.3	2.0	1.2
Other 3/	1.6	1.9	1.8	5.6	6.5	8.5	11.2
Total	63.2	104.4	99.9	131.9	137.4	163.9	169.3

1/ October-September years. 2/ Forecast. 3/ Includes feed and fodders.

Agricultural and Nonagricultural Trade Balance

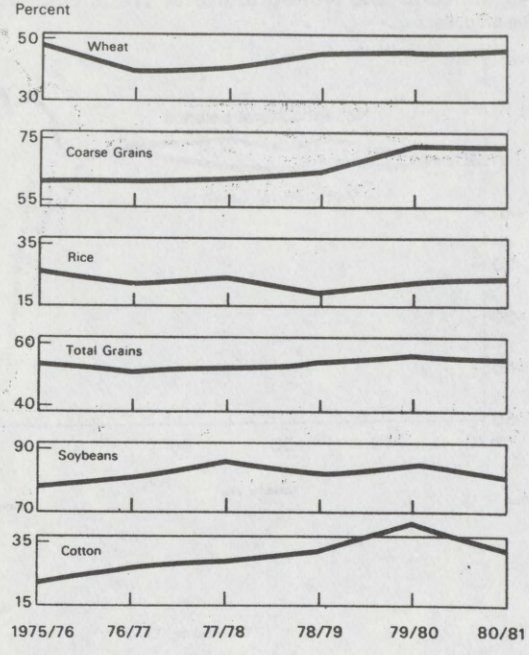
Billion dollars



Calendar Year

	1930	1940	1950	1960	1970	1975	1976	1977	1978	1979	1980
	--- Billion dollars ---										
Agricultural:											
Exports	1.2	.5	2.9	4.8	7.3	21.9	23.0	23.7	29.4	34.7	41.0
Imports	1.5	1.3	4.0	3.8	5.8	9.3	11.0	13.5	14.8	16.7	17.4
Balances:											
Agricultural	-.3	-.8	-1.1	+1.0	+1.5	+12.6	+12.0	+10.2	+14.6	+18.0	+23.6
Nonagricultural	+1.0	+2.1	+2.5	+4.4	+1.3	-2.8	-20.7	-40.0	-46.4	-46.7	-50.0

U.S. Exports as Share of World Trade

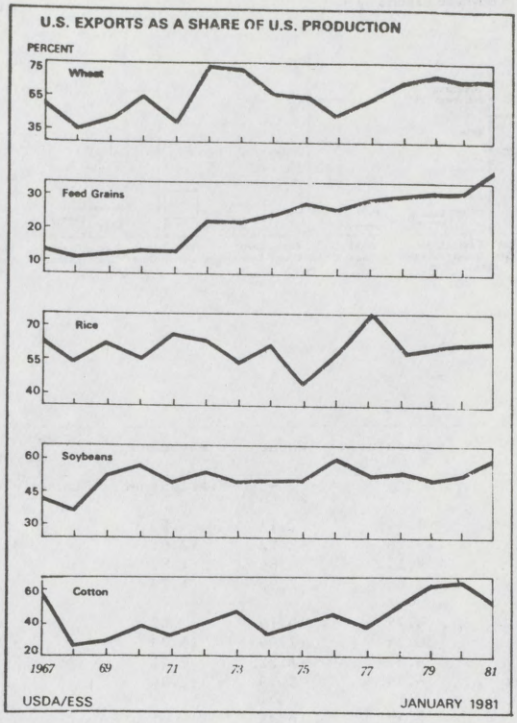


1980/81 Forecast

USDA

JANUARY 1981

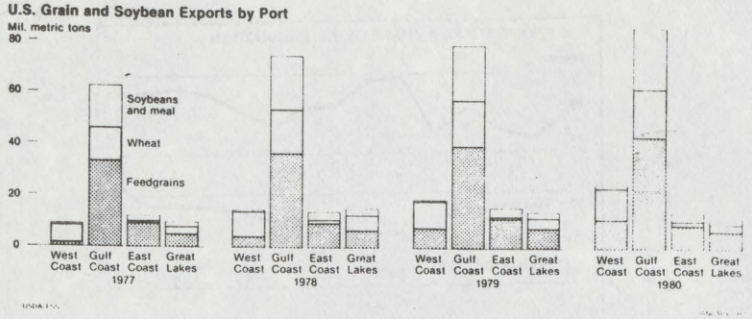
Commodity	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
				---Percent---			
Wheat	36	48	41	43	45	43	45
Coarse grains	42	61	61	62	63	72	72
Rice	19	23	22	24	19	23	24
Total grains	36	53	51	52	53	56	57
Soybeans	62	78	81	86	82	85	81
Cotton	22	17	27	29	31	40	28



U.S. Marketing Year 1/

Commodity	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
			---Percent---				
Wheat	54	55	44	55	67	64	64
Feed grains	13	27	26	28	27	30	37
Rice	55	43	56	73	56	63	65
Soybeans 2/	59	50	59	54	54	53	59
Cotton	38	40	45	38	57	63	50

1/ Production is in first year of marketing year. 2/ Exports include soybean equivalent of meal exports.



Calendar Year/Port	Feedgrains	Wheat	Soybeans	Soybean oilcake and meal	Total
			- - -Million metric tons- - -		
1977					
West Coast	1.14	7.11	.03	.06	8.34
Gulf Coast	33.10	12.92	12.61	3.59	62.22
East Coast	9.15	.84	1.82	.26	12.07
Great Lakes	4.80	2.95	1.73	.22	9.70
1978					
West Coast	3.75	10.19	.02	.08	14.04
Gulf Coast	36.25	17.09	15.73	5.06	74.13
East Coast	9.37	1.22	2.41	.78	13.78
Great Lakes	6.59	5.59	2.54	.41	15.13
1979					
West Coast	7.32	10.85	.01	.08	18.26
Gulf Coast	39.47	17.80	16.27	5.21	78.75
East Coast	11.37	.69	2.90	.51	15.47
Great Lakes	7.68	4.03	1.71	.29	13.71
1980					
West Coast	11.43	12.49	.03	.09	24.04
Gulf Coast	44.69	17.79	17.56	6.29	86.33
East Coast	9.58	1.77	2.52	.41	14.28
Great Lakes	6.88	3.69	1.67	.24	12.48
1980 TOTAL 1/	72.58	35.75	21.78	7.02	137.13

1/ Includes small amounts from other ports.

Soviet Grain and Livestock Developments

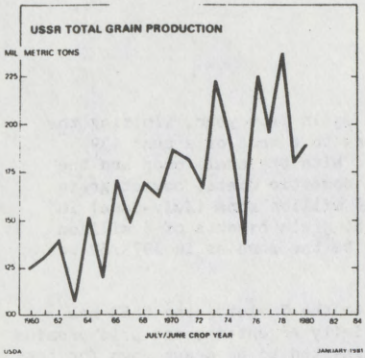
* Adverse weather hurt the Soviet grain crop again last year, limiting the USSR's recovery from 1979's 179 million tons to a crop of around 189 million, still 45 million tons below plan. With the small crop and the Soviets' continued commitment to improving domestic diets, Soviet grain imports are likely to increase to around 34 million tons (July-June) in 1980/81, up from 31 million last year. U.S. grain exports of 8 million tons during the fifth agreement year would be the same as in 1979/80 but sharply below 1978/79's 15.5 million.

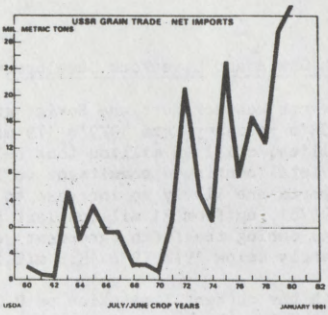
* With the current limitation on U.S. sales to the Soviets, the USSR has turned to other countries for grain, especially Argentina, and paid premium prices. Even so, total grain stocks are expected to be drawn down for the second consecutive year in the USSR. Availability of grains for feed use is tight, forcing the Soviets to market animals at lighter weights and curb their plans for expanding livestock inventories.

* Planned 1981 crop area is 128 million hectares, and some increase is likely from the 126 million for the 1980 crop. Area seeded to grains in the fall fell below plan, but spring seedings could expand depending on the weather. But even with a good recovery in yields, the USSR's 1981 production plan of around 240 million may be out of reach.

* Total Soviet meat production dipped 2-1/2 percent in 1980, the second consecutive year of tight feed supplies. Average slaughter weights fell as livestock inventories were maintained at about the previous year's levels. The January 1, 1981, cattle inventory was slightly larger than last year, while the hog inventory was slightly smaller. A 2-percent rise in poultry numbers during 1980 was sharply below the 1977-79 pace of 7 percent gains per year.

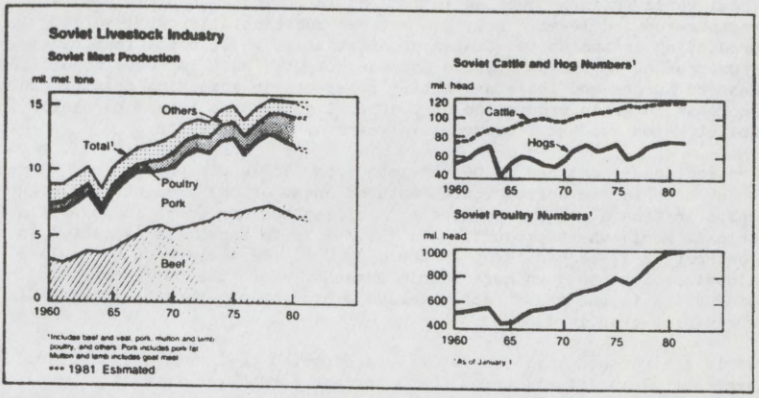
* If the Soviets continue their concerted effort to maintain inventories in 1981, meat production will slip as tight feed supplies force continued marketing of lighter weight animals and a probable drop in slaughter numbers.





Year (July-June)	Production	Trade Imports	Trade Exports	Availability 1/	Utilization Feed	Utilization Total	Stock Change 2/
			(Million Metric Tons)				
			Total Grains 3/				
1972/73	168	22.8	1.8	189	98	187	+2
1973/74	223	11.3	6.1	228	105	214	+14
1974/75	196	5.7	5.3	196	107	206	-10
1975/76	140	26.1	0.7	166	89	180	-14
1976/77	224	11.0	3.3	232	112	221	+11
1977/78	196	18.9	2.3	213	122	228	-16
1978/79	237	15.6	2.8	250	125	231	+19
1979/80 4/	179	31.0	0.8	209	126	225	-16
1980/81 5/	185	34.5	1.0	218	114	220	-2
			Wheat				
1972/73	86	15.6	1.3	100	41	98	+2
1973/74	110	4.5	5.0	109	30	96	+13
1974/75	84	2.5	4.0	82	34	93	-11
1975/76	66	10.1	0.5	76	30	87	-11
1976/77	97	4.6	1.0	100	28	92	+8
1977/78	92	6.6	1.0	98	44	108	-10
1978/79	121	5.1	1.5	125	43	107	+18
1979/80 4/	90	12.0	0.5	102	54	116	-14
1980/81 5/	90	16.0	0.8	105	42	107	-2
			Coarse Grains				
1972/73	72	6.9	0.4	79	53	79	0
1973/74	101	6.4	0.9	106	70	105	+1
1974/75	100	2.7	1.0	101	68	100	+1
1975/76	66	15.6	--	81	56	84	-3
1976/77	115	5.7	2.0	119	78	116	+3
1977/78	93	11.7	1.0	103	74	109	-5
1978/79	105	10.0	1.0	114	79	113	+1
1979/80 4/	81	18.4	--	100	70	102	-2
1980/81 5/	85	18.0	0	103	68	103	0

1/ Availability excludes beginning stocks. Totals may not add due to rounding.
2/ Minus indicates withdrawal from stocks.
3/ Total grain production, trade and utilization figures include pulses, paddy rice, buckwheat, and miscellaneous grains, in addition to wheat and coarse grains.
4/ Preliminary for trade, availability, utilization, and stocks change.
5/ Forecast for production, trade, availability, utilization and stocks change.



USDA/ESS

JANUARY 1981

	Calendar								
	1960	1965	1970	1975	1977	1978	1979	1980	1981 1/
	- - - Million metric tons - - -								
Production									
Beef & veal	3.2	3.9	5.4	6.4	6.9	7.1	7.0	6.8	6.5-6.8
Pork	3.3	4.1	4.5	5.6	5.0	5.3	5.3	5.0	4.5-4.9
Poultry	.8	.7	1.1	1.5	1.7	1.9	2.0	2.2	2.0-2.4
Total meat 2/	8.7	10.0	12.3	15.0	14.7	15.5	15.5	15.1	14.3-15.3
Numbers 3/	- - - Million head - - -								
Cattle	74	87	95	109	110	113	114	115	115.5
Hogs	53	53	56	72	63	71	73	74	73.5
Poultry	514	456	590	792	796	882	947	981	1,000.0

1/ Estimates. 2/ Includes mutton, lamb, and goat meat. Pork includes pork fat.
3/ As of January 1.

World and U.S. Commodity Outlook--Grains

* Total world grain production in 1980/81 is indicated near 1979/80's weather-reduced level. Dry, hot weather substantially cut 1980/81 production in the United States and Australia, while conditions ranging from drought to floods reduced Chinese output. Much improved conditions in Western Europe and India and better prospects in Argentina point to an increase in grain production abroad of slightly more than 3 percent. The Soviet Union has had 2 consecutive years of poor harvests.

* Growing conditions had an uneven impact on 1980 grain production. A record wheat crop in the United States matured ahead of the drought; and bigger crops in Canada and Europe more than offset smaller crops in Australia and China. World wheat production in 1980/81 is up about 2.5 percent. In contrast, a 17-percent drop in the 1980 U.S. feedgrain crop has pulled global production down more than 3 percent. For rice, a recovery in Indian production is the major factor behind a projected 5-percent increase in the world rice crop in 1980/81.

* World grain consumption in 1980/81 is expected to increase less than 1 percent. This is well below the 3 percent annual growth rate of the 1970's, when consumption responded to increasing population and incomes and upgrading of diets to include more animal protein. Cutbacks in feeding in the United States and the USSR slowed the increase in world grain consumption this year.

* With world production little changed from last season and use continuing to increase, world 1980/81 carryover stocks of grains probably will drop about one-fifth, or 40 million tons. About three-fourths of this reduction is expected to be in U.S. feedgrain stocks. This will pull the U.S. share of world feedgrain stocks to less than 40 percent, down from 60 percent at the beginning of the year. U.S. wheat stocks are being maintained in 1980/81, with a working down of stocks in Canada and Australia.

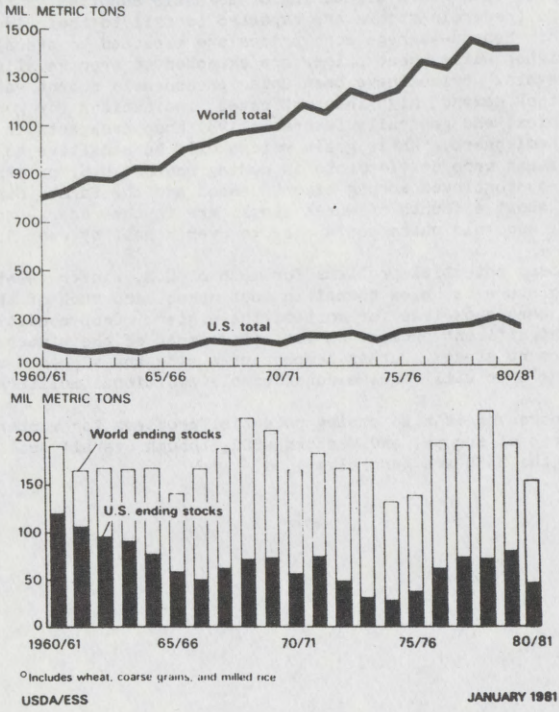
* Global grain trade is expected to expand about 6 percent during 1980/81, with wheat exports increasing a little more than coarse grains. A reduced crop in China and continued low production in the Soviet Union are leading to larger imports by these countries. Chinese imports of around 9 million tons of U.S. wheat this season will more than double the year-ago level. Latin America, North Africa and Asia continue to provide important markets for U.S. grains.

* Expanded U.S. grain exports coupled with the drought-reduced feedgrain crop have resulted in a sharp tightening of domestic supplies in relation to use. U.S. feedgrain stocks are expected to fall to their lowest level since 1976. Season-average corn prices are expected to average 30 to 40 percent higher while wheat prices are expected to average slightly above 1979/80 levels. Prices have been under pressure in recent weeks due to reduced stock demand, high interest rates, indications for good crops in South America, and generally favorable 1981 crop prospects in much of the Northern Hemisphere. While grain prices will be sensitive to weather conditions and crop developments in coming months, U.S. prices will be supported by continued strong export demand and the farmer-owned reserve. Currently about a fourth of wheat stocks are in the reserve and in CCC inventory, and this share could rise to over a half by June 1.

* Dryness poses potential problems for much of U.S. winter wheat in 1981. Subsoil moisture is below normal in most areas, and much of the winter wheat has been snow-free for most of the winter. Crop conditions have shown no significant decline as yet, since most of the winter wheat is now in the dormant stage. But as temperatures rise and vigorous spring growth begins, the crop will require considerable additional moisture.

* Lack of snowcover is also posing potential problems for winter wheat in China, parts of Europe, and Western USSR, though overall soil moisture levels in the USSR are generally good.

GRAINS: WORLD AND U.S. PRODUCTION AND ENDING STOCKS°

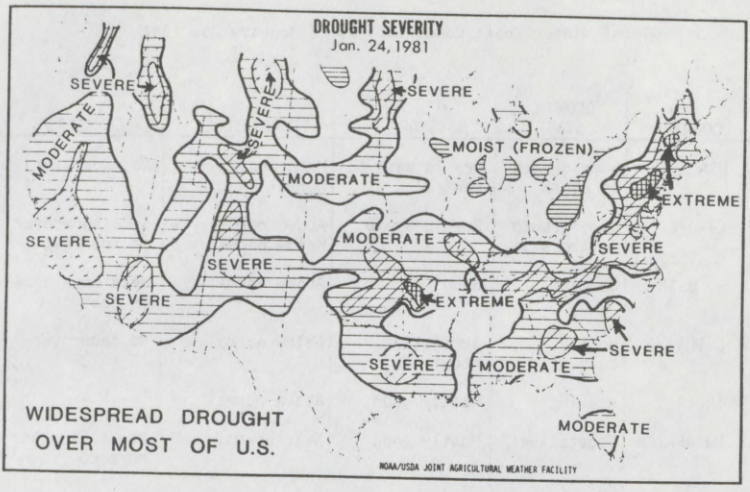


°Includes wheat, coarse grains, and milled rice

USDA/ESS JANUARY 1981

	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80 1/	1980/81
			---Million metric tons---				
Beginning stocks	205	131	138	194	192	219	190
Production	1,100	1,246	1,362	1,337	1,460	1,414	1,414
(United States)	183	247	256	262	275	301	268
Total supply	1,305	1,377	1,500	1,531	1,652	1,633	1,604
Utilization	1,139	1,238	1,305	1,340	1,432	1,444	1,454
Ending stocks	166	138	194	191	219	190	150
(United States)	55	37	61	74	72	78	47
Stocks/use ratio	14.5	11.1	14.8	14.2	15.4	13.2	10.3
Trade	109	153	157	166	174	199	210

1/ Crop production prospects still uncertain for the Southern Hemisphere; major uncertainties at this point center on utilization and trade.



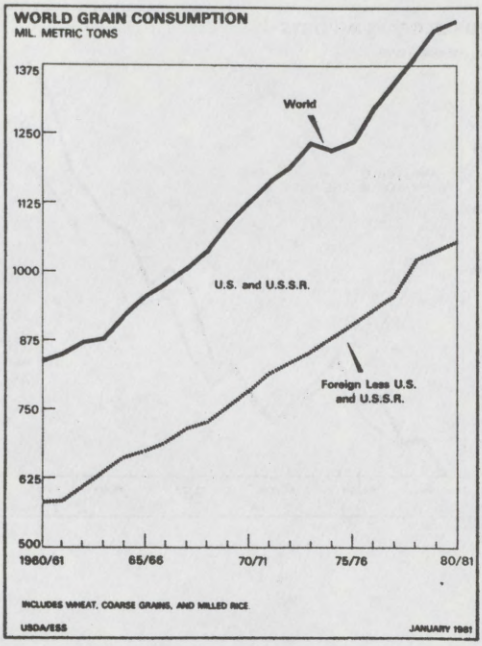
The above characterizations are based on Palmer Index readings. The Palmer Index reflects the general soil moisture available as a cumulative departure from the long term average weather conditions. The Palmer Index categories generally describe the degree that moisture may impact crop development or field work as follows:

Palmer Reading	Soil	Agricultural Impact
Severe wetness (Above +3)	Ground saturated.	Delay spring field works, possible flooding.
Moderate wetness (+2 to +3)	Soil moisture at or near capacity.	Possible delay in field work, good crop response when planted.
Near normal (-2 to +2)	Generally satisfactory to favorable moisture.	Near normal crop development.
Moderate drought (-2 to -3)	Generally inadequate soil moisture.	Some crop yield reduction expected.
Severe to extreme drought (Less than -3)	Inadequate soil moisture.	All crops experience yield reduction--some significant reductions.

These readings indicate regions that have a potential for drought-related crop yield reduction. The situation could change rapidly with the beginning of spring rains. Adequate precipitation by late March and in April could eliminate the potential for crop yield reduction from the current dryness.

Global Winter Wheat Conditions as of January 25, 1981

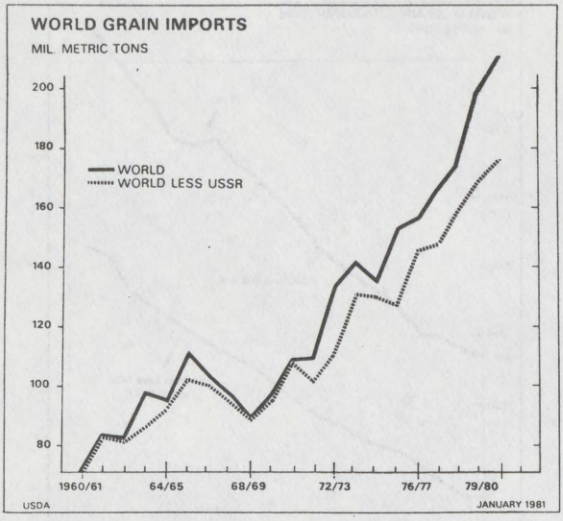
COUNTRY	GROWTH STAGE	MOISTURE	TEMPERATURE	COMMENTS
USA	Some growth in south	Dry in west-central	Much above normal	No snowcover
EUROPE	Some growth in the west	Dry in Spain	Above normal - W Below normal - E	Some snowcover in the east
W. USSR	Dormant	Good	Above normal	Need more snow in east
CHINA	Mostly dormant	Irrigation required	Below normal	No snowcover
INDIA	Heading	Mostly good	Above normal	- -
NW AFRICA	Vegetative	Mostly good	Near normal	Dry in southern Morocco



	1960/61	1970/71	1972/73	1974/75	1976/77	1977/78	1978/79	1979/80	1980/81 1/
				- - - Million metric tons - - -					
World	836	1,138	1,191	1,217	1,305	1,340	1,432	1,444	1,454
U.S.	138	164	181	141	152	161	181	185	180
USSR	118	188	187	206	221	228	231	225	220
World less U.S., USSR	580	786	823	870	932	951	1,020	1,034	1,054

Includes wheat, coarse grains, milled rice.

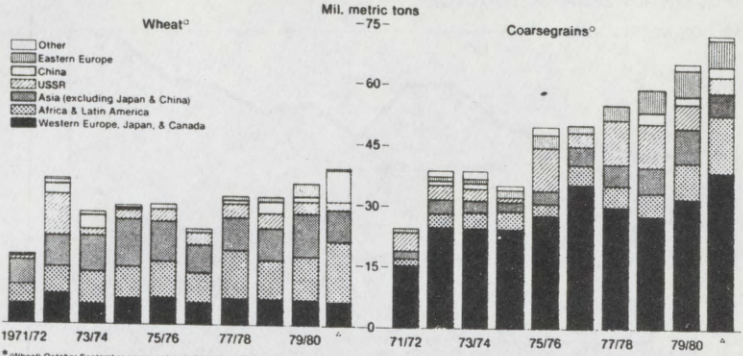
1/ Forecast.



Total Imports 1/	1960/61	1970/71	1972/73	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	--- Million metric tons ---								
World	72	110	134	152	156	166	174	199	210
USSR	1	1	23	26	11	19	16	31	34.5
World less: USSR	71	109	111	126	145	147	158	168	176

1/ July/June marketing year for wheat and coarse grains; calendar year for rice.

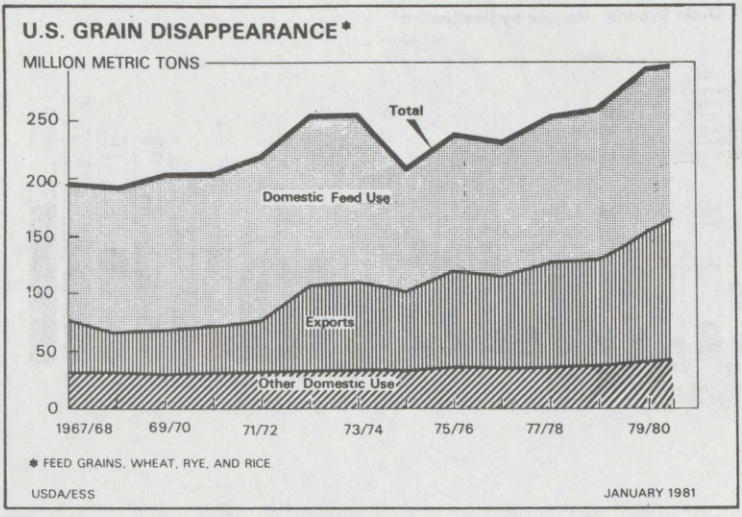
U.S. Grain Exports: Volume by Destination*



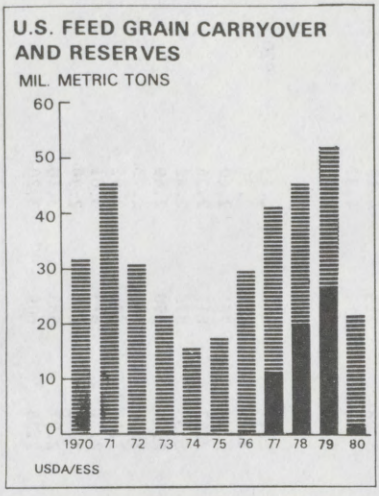
*(Wheat) October-September years, not including wheat flour. (Coursegrains) October-September years.
□ Adjusted for transshipments via Canadian ports except the first and third years. ○ Not adjusted for transshipments through Canadian ports for first 4 years.
△ Forecast.

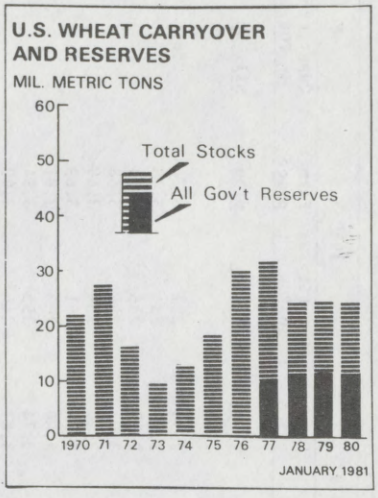
Destination 1/	1971	1972	1975	1976	1977	1978	1979	Forecast 1980/81 2/
	---Million metric tons---							
Wheat								
W. Eur., Japan & Canada	5.0	7.6	6.6	5.4	6.6	6.5	7.7	6.5- 7.5
Africa & Latin America	4.6	6.5	9.0	7.4	11.7	9.5	12.0	11.5-13.5
Asia (Excl. Jap. & China)	6.2	7.8	9.9	6.9	8.2	7.9	7.2	7-9
USSR	.8	10.1	3.0	3.0	3.4	3.9	2.3	3
China	.1	2.4	---	---	1.0	2.7	4.1	8.5- 9.5
Eastern Europe	.4	1.0	1.4	1.0	1.0	.9	2.8	1
Other	---	.5	---	---	---	---	---	---
Total	17.1	35.9	29.9	23.8	31.8	31.8	36.1	40.0
Coarse grains								
W. Eur., Japan & Canada	15.3	25.0	27.9	35.7	30.2	27.8	35.7	35-38
Africa & Latin America	1.6	3.2	3.0	4.9	5.4	5.7	13.0	13-15
Asia (Excl. Jap. & China)	2.0	3.8	3.3	4.6	5.2	6.6	6.7	7-9
USSR	4.4	3.4	10.6	3.2	10.9	10.9	5.9	5
China	---	1.2	---	---	---	2.8	1.8	1-2
Eastern Europe	1.4	.9	3.2	2.2	3.9	5.7	8.0	7.5- 8.5
Other	---	1.6	1.9	---	---	---	.1	.2
Total	24.6	39.1	50.0	50.6	55.5	59.5	71.2	74.3

1/ Year beginning October 1; not adjusted for transshipments through Canadian ports for 1971-75. 2/ Forecast.



	1970/71	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
				- - - Million metric tons - - -					
Feed Use	132	143	106	117	115	124	142	142	135
Other Use	32	34	35	38	38	38	40	43	46
Total Domestic	164	177	141	155	153	162	182	185	180
Exports	40	76	66	84	78	89	95	112	119
Total Use	204	253	207	239	231	251	277	296	299





Grains[1/]	1970/71	1971/72	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	--- Million metric tons ---							
Wheat								
Carryover	22	27	18	30	32	25	25	25
FOR[2/]	---	---	---	---	9	11	7	7
Gov. Reserve	---	---	---	---	1	1	5	5
Feedgrains								
Carryover	32	45	17	30	41	46	52	21
FOR[2/]	---	---	---	---	10	16	18	--[3/]
Gov. Reserve	---	---	---	---	1	4	8	1
Total								
Carryover	54	72	35	60	73	73	78	47
FOR[2/]	---	---	---	---	21	27	24	7
Gov. Reserve	---	---	---	---	2	5	13	7

1/ June 1 for wheat, barley, and oats; October 1 for corn & sorghum; August 1 for rice.

2/ Farmer-owned reserve.

3/ Less than 500,000 tons.

Farmer-Owned Reserve (FOR) Entries and Monthly Prices for Wheat and Corn 1/

Item	1978		1979		1980		1981	
	Quantity in FOR	Farm price	Quantity in FOR	Farm price	Quantity in FOR	Farm price	Quantity in FOR	Farm price
	Mil. bu.	$/bu.	Mil. bu.	$/bu.	Mil. bu.	$/bu.	Mil. bu.	$/bu.
Wheat								
January	76	2.53	411	2.99	227	3.74	256	
February	92	2.59	411	2.99	234	3.78		
March	143	2.67	411	2.97	246	3.64		
April	234	2.82	411	3.01	254	3.58		
May	334	2.82	411	3.20	259	3.69		
June	349	2.81	361	3.72	261	3.69		
July	367	2.81	291	3.89	260	3.81		
August	384	2.88	265	3.74	255	3.94		
September	396	2.92	256	3.87	214	3.99		
October	400	2.99	248	3.98	215	4.19		
November	406	3.04	237	3.94	214	4.32		
December	408	3.01	232	3.80	216	4.09		
Corn								
January	---	2.00	726	2.11	610	2.45	920	
February	1	2.03	733	2.18	717	2.39		
March	3	2.15	735	2.22	765	2.40		
April	7	2.24	735	2.27	817	2.36		
May	51	2.29	735	2.35	878	2.42		
June	90	2.28	710	2.49	890	2.49		
July	114	2.16	683	2.64	896	2.73		
August	168	2.01	586	2.54	896	2.92		
September	257	1.98	552	2.51	673	3.01		
October	386	1.97	535	2.41	611	2.99		
November	521	2.02	532	2.27	583	3.10		
December	658	2.09	570	2.38	609	3.20		

1/ Quantities are mid-month estimates.

Oilseeds

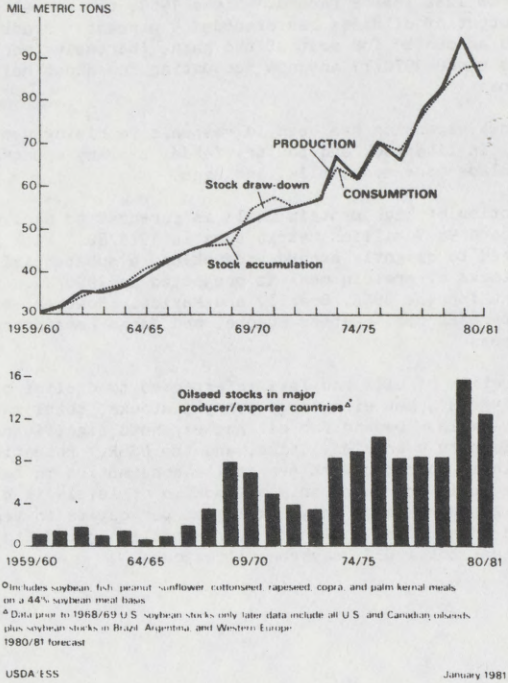
* World production of major oilseeds in 1980/81 is declining an estimated 8 percent from last year's record. Since 1969, the annual rate of growth in global output of oilseeds has exceeded 4 percent. Production of soybeans has accounted for most of the gain, increasing more than 40 million tons since 1970/71 and now accounting for about half of total world oilseed crops.

* Soybean output expansion has been in response to rising demand for high protein meal in livestock and poultry feeds, as many countries upgrade diets to include more meat, milk, and eggs.

* World production of high protein meals is forecast to decline by a tenth from the record 98.7 million metric tons in 1979/80. With 1980/81 global usage expected to slightly exceed production, a substantial drop in carryover stocks of protein meal is projected in 1980/81. Usage gains are most apparent for the USSR, Brazil, and Mexico. However, the United States, Western Europe, Eastern Europe, and Japan remain the largest consuming areas.

* Global production of oils and fats is expected to decline by about 3 percent in 1980/81, but with large carryin stocks, total supplies remain near record levels. Demand for oil has expanded significantly in India, the Middle Eastern countries, China, and the USSR. Potential demand in these markets is enormous with per capita consumption in heavily populated nations like India and China only a fraction of levels in higher income countries. An increase of only 1 kilogram per capita in vegetable oil use in India and China alone could add over 2 billion pounds to world oil usage and about equal total U.S. soybean oil exports.

WORLD PRODUCTION, CONSUMPTION, AND STOCKS OF OILSEEDS AND MEALS ON A MEAL BASIS°



°Includes soybean, fish, peanut, sunflower, cottonseed, rapeseed, copra, and palm kernal meals on a 44% soybean meal basis.

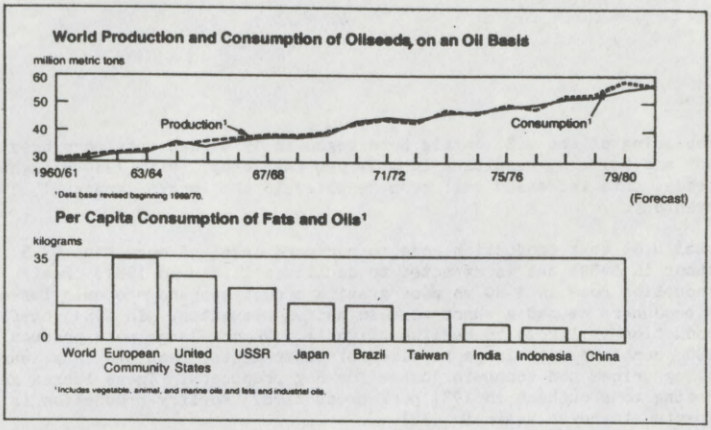
△Data prior to 1968/69 U.S. soybean stocks only later data include all U.S. and Canadian oilseeds plus soybean stocks in Brazil, Argentina, and Western Europe.

1980/81 forecast

USDA-ESS January 1981

Oilseeds & Meals	1970/71	1976/77	1977/78	1978/79	1979/80	1980/81 1/
			---Million metric tons---			
Production 2/	56.0	66.7	78.5	83.3	95.7	86.4
Exports	24.7	33.9	39.1	41.0	46.2	45.0
Consumption	58.0	68.8	78.4	83.3	88.4	89.7
Stock 3/	5.1	8.4	8.5	8.5	15.8	12.5

1/ Forecast; depends largely on outcome of Southern Hemisphere harvests this spring. 2/ Includes soybean, fish, peanut, sunflower, cotton, linseed, rapeseed, copra, and palm meal expressed in terms of 44 percent soybean meal. 3/ Soybean stocks in U.S., W. Europe, Argentina and Brazil plus stocks of all other oilseeds in U.S. and Canada.



	1970/71	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
			---Million metric tons---			
Production	42.1	47.4	52.2	54.2	57.9	56.1
Exports	12.8	16.9	18.3	19.3	20.8	20.9
Consumption	42.2	48.7	52.2	53.4	56.2	56.7
Stocks	2.3	3.7	3.7	4.5	6.2	5.6

World	E.C.	U.S.	USSR	Japan	Brazil	Taiwan	India	Indo-nesia	China
				--- Kilograms ---					
13.7	34.1	26.1	22.5	15.3	14.5	10.5	6.9	5.3	3.9

Major Oilseeds: World and U.S. Production and U.S. Stocks

Production	1970/71	1976/77	1977/78	1978/79	1979/80	1980/81 1/
			---Million metric tons---			
World total	111.7	127.6	147.3	154.6	174.0	160.5
Foreign	74.9	86.5	90.8	95.8	101.3	103.9
United States	36.8	41.1	56.5	58.7	72.7	56.6
Ending stocks 2/	6.5	11.1	12.3	13.3	23.5	17.6

1/ Forecast based on Northern Hemisphere crops already harvested and Southern Hemisphere crops which will not be harvested until spring.

2/ Includes U.S. stocks of all oilseeds, Brazilian and Argentine soybean stocks on September 30, West Europe soybean stocks plus Canadian rapeseed and flaxseed stocks.

*Includes soybeans, cottonseed, peanuts, sunflowerseed, rapeseed, and flaxseed.

Livestock

* Rebuilding of the U.S. cattle herd began in 1979 when cattlemen bred more cows and heifers, resulting in a larger calf crop. With 1980 slaughter steady, this increased calf crop resulted in the larger January 1, 1981, inventory.

* Total U.S. meat production rose to a record level of more than 53.5 billion pounds in 1980, but is expected to decline a little in 1981. Beef production rose in 1980 as poor grazing conditions and economic losses to producers caused a sharp rise in nonfed slaughter. In 1981, beef production is likely to decline slightly. Record large pork production in 1980, combined with large supplies of other meats, resulted in a sharp drop in hog prices and economic losses for hog producers. These losses are leading to a cutback in 1981 pork production. Poultry production is expected to be up again in 1981.

* World meat production expanded in 1980 as beef, pork, and poultry all showed increases. Little change is anticipated for 1981 as increases in poultry production only about offset a lower beef and pork output production. The anticipated level of total meat output for 1981 would mean per capita meat consumption is expected to decline.

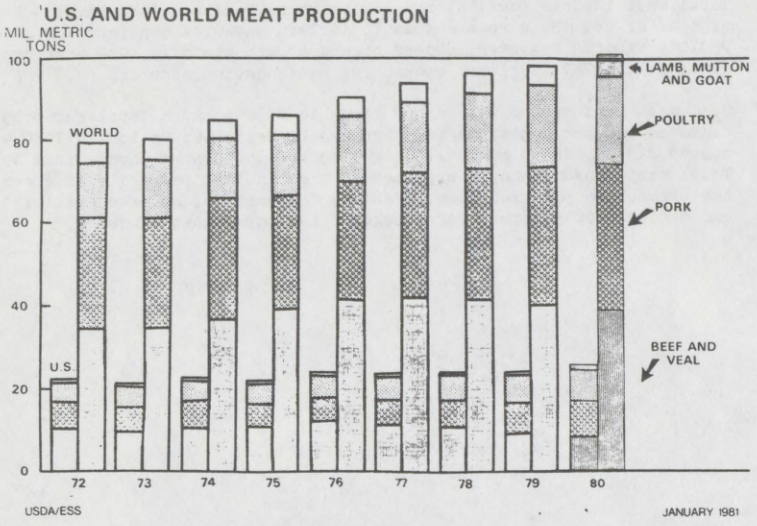
* U.S. milk production rose in 1980 as both cow numbers and output per cow increased. The larger milk cow herd and further increases in productivity per cow is expected to push milk output higher in 1981. Use of dairy products slipped in 1980, resulting in a large surplus and heavy USDA purchases under the dairy price support program. Demand for dairy products is expected to be stronger in 1981, and some recovery in commercial use is likely. However, use is not likely to increase enough to prevent continued heavy USDA purchases under the price support program.

* The ratio of prices received for livestock and products to prices paid for feed dropped sharply in 1980 as livestock prices declined and feed prices rose. Although livestock prices are expected to rise in 1981, they probably will not keep pace with feed-price increases, forcing a further decline in the livestock/feed price ratio.

* During 1980, large meat supplies and a weaker demand held fed cattle prices near the year-earlier level and caused hog prices to average about $2 lower. Broiler prices, however, averaged about 2 cents per pound higher as consumers turned to lower priced poultry to try to stretch their budgets. Strengthening livestock and poultry prices are anticipated in 1981 as meat supplies tighten and the economy begins to improve.

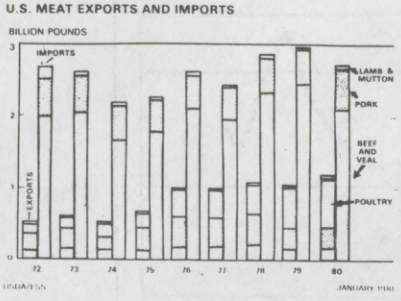
* Total meat imports in 1980 declined from the year-earlier level as tight world beef supplies led to almost a 15-percent drop in U.S. beef imports. Total meat imports for 1981 are likely to be near the 1980 level. U.S. exports of red meats remained small in 1980 and will continue low in 1981. Poultry exports, however, showed strong growth again in 1980 that should continue in 1981 as global demand for meat continues to expand.

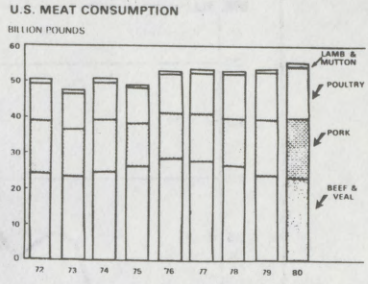
* U.S. meat consumption was record large in 1980 both in total quantity consumed and per capita terms. Per capita meat consumption in 1980 was around 213 pounds on a retail weight basis, up about 4 pounds from 1979. Total meat consumption is expected to drop in 1981 primarily as a result of the cutback in pork supplies. Poultry consumption, however, will increase and account for a higher percentage of the total meat consumed.



	1972	1975	1976	1977	1978	1979	1980	1981
			- - - Million metric tons - - -					
Beef and veal:								
U.S.	10.4	11.3	12.2	11.3	11.3	9.9	10.0	9.8
World	34.3	39.4	41.4	41.7	41.5	39.5	39.7	39.5
Pork:								
U.S.	6.5	5.3	5.8	6.0	6.1	7.0	7.5	7.1
World	27.1	27.7	27.4	29.0	30.4	32.3	34.7	34.1
Poultry:								
U.S.	4.9	4.8	5.4	5.5	5.9	6.5	6.6	6.9
World	13.2	14.6	16.1	17.1	18.4	19.8	20.8	21.7
Lamb, mutton and goat:								
U.S.	.2	.2	.2	.2	.1	.1	.1	.1
World	4.9	4.8	4.9	4.7	4.7	4.7	4.9	4.9

* Includes the major meat-producing countries except China.



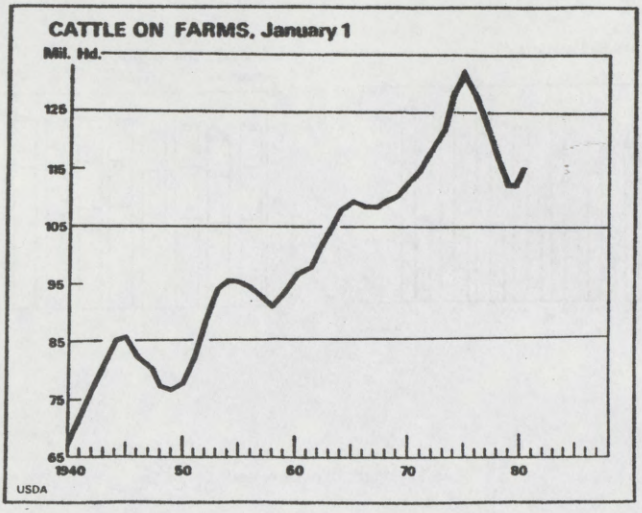


U.S. Meat Exports and Imports

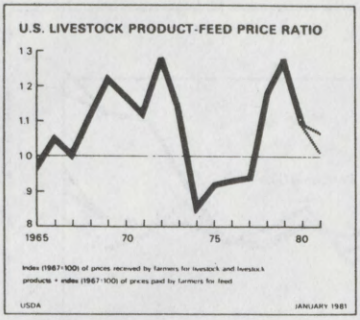
	1979		1980	
	Imports	Exports	Imports	Exports
		---Billion pounds---		
Beef and Veal	2.431	.170	2.071	.175
Pork	.499	.291	.532	.249
Lamb and Mutton	.044	.001	.033	.001
Poultry	0	.503	0	.750
TOTAL	2.974	.965	2.636	1.175

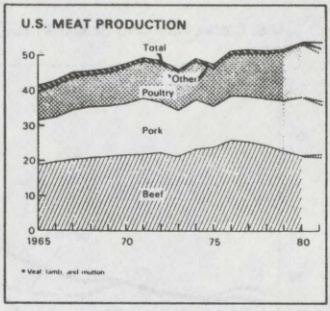
U.S. Meat Consumption

	1979	1980
	---Billion pounds---	
Beef and Veal	23.968	23.863
Pork	15.353	16.560
Poultry	13.456	13.744
Lamb and Mutton	.334	.351
TOTAL	53.111	54.518

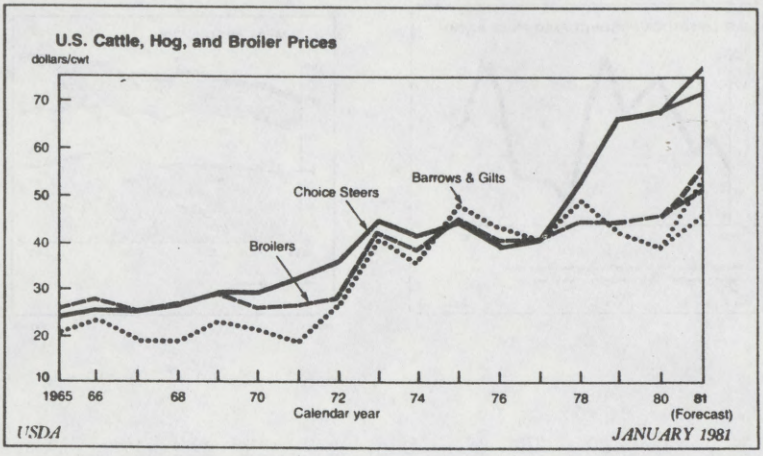


	1940	1950	1960	1970	1975	1977	1978	1979	1980	1981
				Million head						
Cattle on farms	68.3	78.0	96.2	112.4	132.0	122.8	116.4	110.9	111.2	115.0



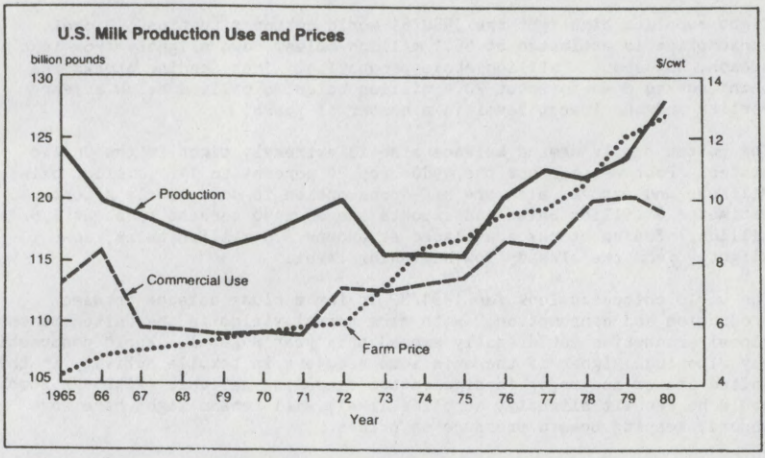


	1965	1970	1975	1976	1977	1978	1979	1980	1981
				---Billion pounds---					
Beef	18.7	21.7	24.0	26.0	25.3	24.2	21.4	21.6	21.1-21.8
Pork	12.8	14.7	11.8	12.7	13.2	13.4	15.4	16.6	15.3-15.9
Poultry	8.1	10.2	10.6	11.8	12.1	12.9	14.3	14.6	14.8-15.3
Other	1.7	1.1	1.3	1.2	1.2	.9	.7	.7	.6-.7
Total	41.3	47.7	47.7	51.7	51.9	51.5	51.9	53.5	51.8-53.4
					---Ratio---				
Livestock/feed price ratio	.97	1.17	.92	.93	.94	1.19	1.26	1.09	1.01-1.07



	Calendar								
	1965	1970	1975	1976	1977	1978	1979	1980 1/	1981
	---Dollars/cwt.---								
Choice steers	24.99	29.36	44.61	39.11	40.38	52.34	67.67	66.96	72-78
Barrows and gilts	21.30	21.95	48.32	43.11	41.07	48.49	42.06	40.01	47-53
Broilers	26.40	26.40	45.10	40.20	40.80	44.50	44.40	46.80	51-57

1/ Forecast.



	1965	1970	1975	1976	1977	1978	1979	1980
			--- Billion pounds ---					
Production	124.2	117.0	115.3	120.3	122.7	121.6	123.6	128.1
Commercial Use	113.9	109.2	113.8	116.4	116.1	118.9	120.4	119.2
			--- Dollars/cwt. ---					
Farm Price	4.23	5.71	8.75	9.66	9.72	10.60	12.00	13.03

Cotton

* Tight supplies highlight the 1980/81 world cotton situation. Global consumption is estimated at 65.1 million bales, down slightly from last season, but about a million above production. Thus, ending stocks are being worked down to about 20.4 million bales, a million below a year earlier and the lowest level in a number of years.

* The cotton supply-demand balance also is extremely tight in the United States. Poor weather cut the 1980 crop 24 percent to 11.1 million bales. Mill use and exports also are off--consumption is down nearly a tenth to an estimated 6 million bales and exports are down 40 percent to about 5.5 million. Ending stocks are placed at around 2.8 million bales, down slightly from the already low beginning level.

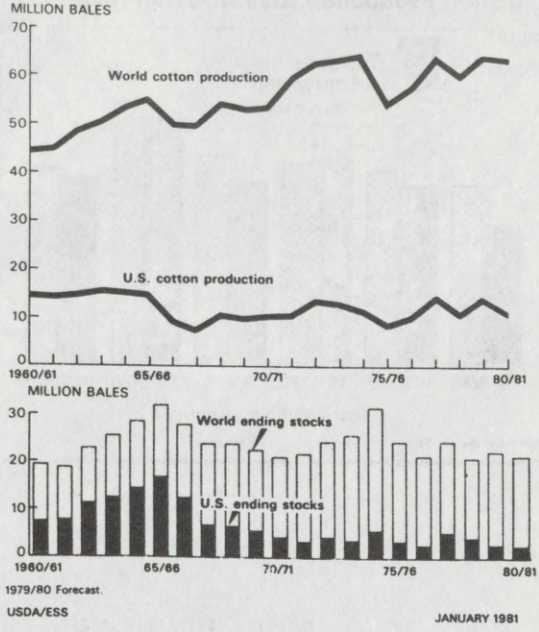
* The world cotton outlook for 1981/82 is for a close balance between production and consumption. With more normal yields in the United States, global production could easily exceed this year's level. World consumption may also edge higher if there is some recovery in textile activity in the United States and major foreign cotton consuming nations. Although stocks could be rebuilt slightly, supplies likely will remain tight here and abroad, keeping upward pressure on prices.

Sugar

* The 1980/81 world sugar situation is highlighted by tight supplies and higher prices. Production is estimated at 87.1 million tons, about 3 million below consumption. Thus, stocks are expected to fall to about 20.8 million tons by the end of the season, down a tenth from the beginning level. U.S. stocks are estimated at 3 million tons, the smallest in 5 years.

* With tight supplies, world sugar prices shot up early in 1980 before easing late in the year. For the year as a whole, prices averaged 29 cents per pound, triple the 1979 level. At the end of January, prices were averaging 24-25 cents per pound and are expected to strengthen further in early 1981 based on this season's projected low stocks relative to consumption. However, price increases will be moderated by increased use of substitutes. Prices may again ease in late 1981 depending largely on 1981/82 world crop prospects.

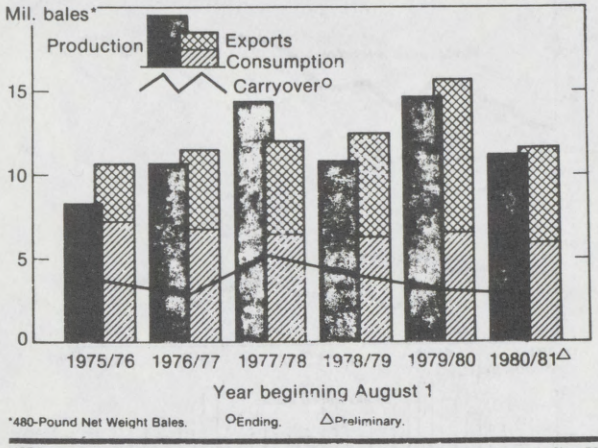
COTTON: WORLD AND U.S. PRODUCTION AND ENDING STOCKS



	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81 1/
			---Million bales---				
Production	53.7	54.0	56.8	64.1	60.2	65.7	64.1
Consumption	56.1	61.1	60.6	60.7	62.9	65.4	65.1
Exports	17.7	19.1	17.6	19.2	19.8	23.0	19.9
Ending stocks	20.9	24.0	20.4	24.3	21.7	21.6	20.4

1/ Forecast; Southern Hemisphere crops, which account for 10 percent of global output, are not yet harvested. Global utilization is more uncertain.

U.S. Cotton Production, Use And Carryover



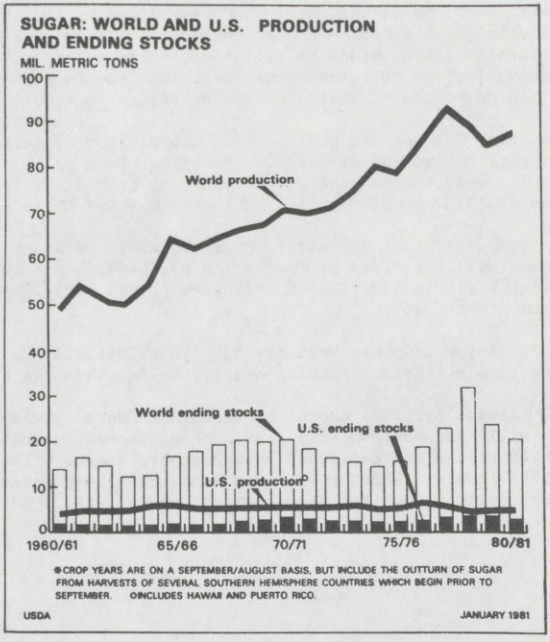
*480-Pound Net Weight Bales. °Ending. △Preliminary.

USDA

Neg. ESS 1991-81(1)

	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	Forecast 1980/81
			- - - Million bales - - -				
Production	10.2	8.3	10.6	14.4	10.9	14.6	11.1±0.2
Consumption	8.2	7.2	6.7	6.5	6.4	6.5	6.0±0.2
Exports	3.9	3.3	4.8	5.5	6.2	9.2	5.5±0.5
Ending stocks	4.2	3.7	2.9	5.3	4.0	3.0	2.8±0.6
			- - -Cents/pound- - -				
Farm price	22.9	51.3	64.1	52.3	58.4	63.4	77.1 1/

1/ Weighted average price during the first 5 months of the season. This is not a forecast for 1980/81.



	1970/71	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
			---Million metric tons (raw)---				
Production							
World	70.7	81.7	86.3	92.5	91.0	84.6	87.1
United States	5.6	6.5	6.2	5.4	5.4	5.1	5.1
Ending stocks							
World	19.0	21.2	25.0	30.1	30.8	23.7	20.8
United States 1/	2.9	2.7	3.4	3.3	3.6	3.7	3.0

1/ Includes Hawaii and Puerto Rico

Commodity Stocks and Prices

* Crop supplies for 1980/81 that were sharply reduced by last summer's drought, coupled with strong overseas demand, will mean sharply lower stocks for grains and oilseeds by fall and continued low cotton stocks. Tightening supplies in relation to use will continue to support producer prices in coming months at well above year-earlier levels.

* Corn stocks next October are projected at 566 million bushels, two-thirds below year earlier and the smallest since 1976. Farm prices are expected to average $3.25-$3.60 per bushel this year, up from $2.52 in 1979/80. Farm prices of $3.32 in mid-January 1981 were a third above a year ago.

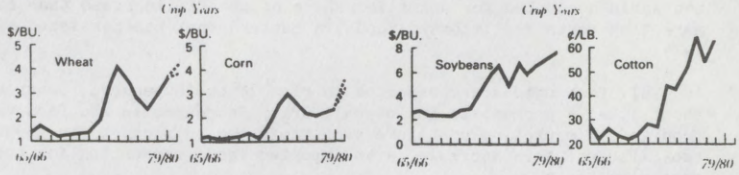
* Wheat carryover stocks of 909 million bushels would be about steady, but strong demand will keep farm prices in the $3.95-$4.15 per bushel range, compared with $3.78 in 1979/80. Mid-January prices of $4.22 were up 13 percent from a year ago.

* A very small cotton crop has kept the supply-use situation tight for cotton, and farm prices are running nearly one-fourth above a year ago.

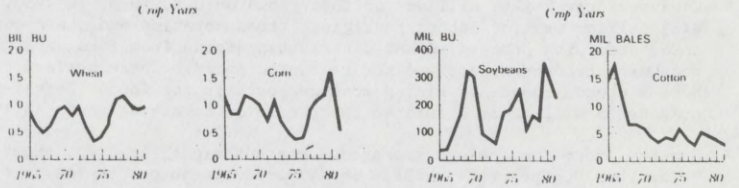
* If acreage expands for 1981 crops and weather is more favorable, U.S. crop production will rebound from this year's drought-reduced levels. However, lower carryin stocks and continued strong export demand will hold prices above 1980/81 levels. Wheat prices may come under some pressure if a record crop develops, but the farmer-owned reserve will provide support.

U.S. COMMODITY STOCKS AND PRICES

Season Average Prices



Ending Stocks



USDA/ESS

JANUARY 1981

U.S. Commodity Stocks and Prices

Year	Season average prices				Ending stocks			
	Corn	Wheat	Soybeans	Cotton	Corn	Wheat	Soybeans	Cotton
1975/76	2.54	3.56	4.92	51.3	400	665	245	3.6
1976/77	2.15	2.73	6.81	64.1	886	1,112	103	2.9
1977/78	2.02	2.33	5.88	52.3	1,111	1,177	161	5.3
1978/79	2.25	2.97	6.66	58.4	1,304	924	174	4.0
1979/80	2.52	3.78	6.28	63.4	1,617	902	359	3.0
1980/81	3.25-3.60	3.95-4.15	7.90 +.75 -.50	--	566	909	210	2.8

Food Prices and Inflation

* Housing costs continued to be a major source of rising consumer prices in 1980. Transportation costs also rose substantially; price increases in both sectors were related to higher fuel and energy costs. The farm value of food's contribution to the CPI was small relative to the other sectors and again accounted for a smaller share of the CPI increase than food marketing costs and imported foods, a pattern that has persisted since 1974.

* In 1981, food prices are expected to rise 10 to 15 percent, contributing about 1.2-1.8 percent to the overall CPI. Increases in the farm value of food and in marketing costs are each projected to account for about two-fifths of this increase, with imported foods accounting for the remaining tenth.

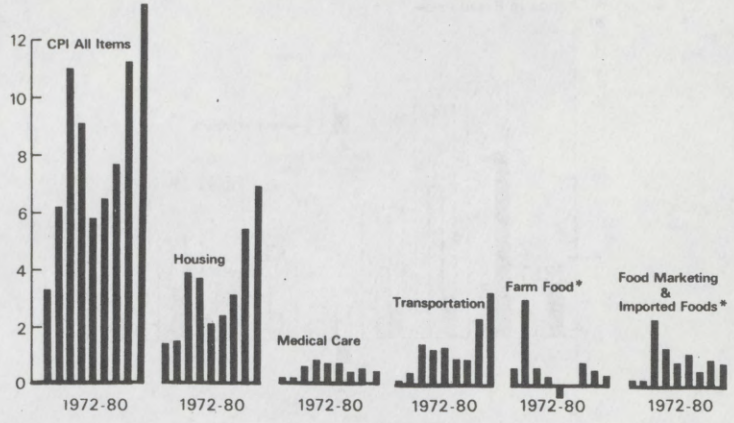
* Consumers spent $269 billion for food grown on U.S. farms in 1980. About $183 billion was for labor, packaging, transportation and other costs associated with processing and distributing foods from farm gate to the consumer; producers received the remaining third. These nonfarm costs have been a steady source of rising consumer outlays for food. Energy-related components will cause a further sharp rise in marketing costs in 1981.

* Grocery store food prices averaged 8 percent higher in 1980, substantially below the 10.8 percent increase in 1979. Contributors to the increase also shifted in 1980. Widening marketing spreads accounted for slightly over half of the increase, about the same as 1979. Some improvements in returns to farmers accounted for about a fifth of the increase in 1980, down from about a third in 1979.

* The farm value of food price increases shows sharp year-to-year variation as commodity supply and demand conditions change, while marketing costs pushed by inflation have played an increasing role in recent years. The farm value is expected to rise sharply in 1981, as meat prices increase with tightening beef and pork supplies this spring.

* U.S. citizens continue to devote a smaller share of their total consumption expenditures to food than their counterparts in all other countries. In 1978, the most recent year for which foreign data are available, the United States averaged 16.3 percent, compared with Canada's 20.8 percent and the Federal Republic of Germany's 26.5 percent. The Soviet Union generally averages 40-50 percent, and in most developing countries the share of consumer expenditures devoted to food averages in the 60-70 percent range.

PERCENT CHANGE IN CONSUMER PRICE INDEX
FOR ALL ITEMS AND CONTRIBUTION FROM SELECTED SECTORS



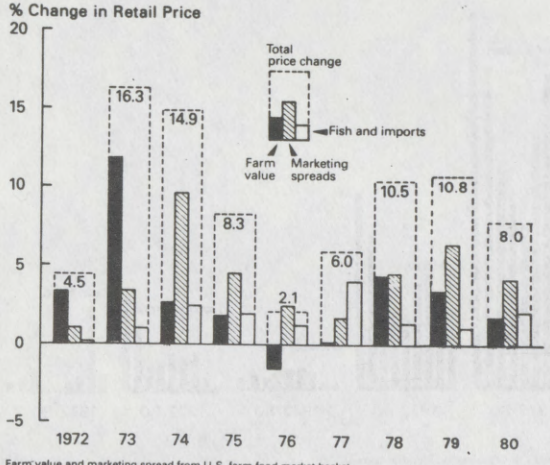
*Components of CPI subgroup : food at home.

USDA/ESS

JANUARY 1981

Item	1972	1973	1974	1975	1976	1977	1978	1979	1980
	--- Relative contribution ---								
CPI:									
All items	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5
Housing	1.4	1.5	3.9	3.7	2.1	2.4	3.8	5.4	7.0
Medical care	0.2	0.2	0.6	0.8	0.7	0.7	0.4	0.5	0.5
Transportation	0.1	0.4	1.4	1.2	1.3	0.9	0.8	2.5	3.3
Farm value of food	0.6	2.9	0.6	0.2	-0.3	0	0.6	0.4	0.2
Food marketing & imported foods	0.2	0.3	2.3	1.4	0.7	1.1	0.7	1.0	0.8
	--- Percent change in each sector ---								
CPI:									
All items	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5
Housing	3.9	4.5	11.6	10.8	6.2	7.0	8.7	12.2	15.7
Medical care	3.2	3.9	9.3	12.0	9.5	9.6	8.4	9.3	10.9
Transportation	1.1	3.3	11.2	9.4	9.9	7.1	4.7	14.3	17.8
Farm value of food	9.4	34.6	7.4	3.7	-5.3	0.2	16.8	10.9	5.4
Food marketing & imported foods	2.1	2.8	19.7	10.8	5.4	8.5	7.7	10.8	9.2

CONTRIBUTORS TO CHANGES IN FOOD PRICES

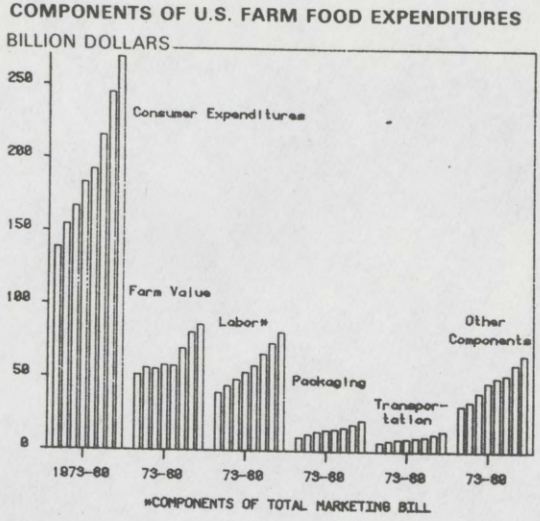


Farm value and marketing spread from U.S. farm-food market basket.
Total price change from food-at-home index, Bureau of Labor Statistics.

USDA/ESS

JANUARY 1981

Item	1972	1973	1974	1975	1976	1977	1978	1979	1980	Forecast 1981
				--- Contribution ---						
Farm value	3.0	11.6	3.2	1.3	-1.8	0.1	4.5	3.4	1.7	3.7-6.2
Fish and imports	.2	1.0	2.5	1.9	1.2	4.1	1.4	1.2	2.1	1.8-3.0
Marketing costs	1.3	3.7	9.2	5.1	2.7	1.8	4.6	6.2	4.3	4.5-5.8
				--- Percent change ---						
Total	4.5	16.3	14.9	8.3	2.1	6.0	10.5	10.8	8.0	10.0-15.0



Item	1973	1974	1975	1976	1977	1978	1979	Preliminary 1980	Preliminary 1981
					---Billion dollars---				
Farm value	51.7	56.4	55.6	58.3	58.0	69.7	80.6	86.0	96-103
Labor 1/	39.7	44.3	48.7	53.7	58.4	66.2	73.7	81.1	88- 89
Packaging	9.4	11.8	13.5	14.6	15.2	16.4	18.5	21.5	23- 24
Transportation	6.4	7.5	8.5	9.1	19.8	10.5	12.2	14.2	15- 16
Other	31.6	34.6	40.7	47.6	50.9	52.9	60.1	66.2	74- 77
Total	138.8	154.6	167.0	183.3	192.3	215.7	245.1	269.0	296-309

1/ Labor used in processing and marketing.

THURSDAY, FEBRUARY 5, 1981.

FARM CREDIT ADMINISTRATION

WITNESSES

WILLIAM DALE NIX, CHAIRMAN, FEDERAL FARM CREDIT BOARD
DONALD E. WILKINSON, GOVERNOR
C. T. FREDRICKSON, SENIOR DEPUTY GOVERNOR
FREDERICK R. MEDERO, GENERAL COUNSEL
PAUL C. REDMER, DIRECTOR, ADMINISTRATIVE DIVISION
OWEN COOPER, FEDERAL FARM CREDIT BOARD MEMBER
RALPH RAIKES, FEDERAL FARM CREDIT BOARD MEMBER
JOHN NAILL, FEDERAL FARM CREDIT BOARD MEMBER

CALL TO ORDER

Mr. WHITTEN. The committee will come to order.

We have with us today the Farm Credit Administration.

We have asked Governor Wilkinson to be with us today because of the uncertainty of the budget requests that will be coming to us from the outgoing President and from the new President. Therefore, about all we can do is discuss what the facts are as of today.

Governor, you might come up to the table, along with whoever you might like to have sit with you.

OPENING REMARKS

I know of no one who is in better shape to advise us as to the current financial situation that exists than you, as the man who deals with credit, money, collections, and loans. You have to stay on top of the situation.

The Farm Credit Administration is now farmer-owned. It was originally capitalized by the United States, but the entire system is now owned by its users. It operates on money that comes from borrowing in the marketplace, and hence it is more or less self-regulated, except that we did insist that you report to us each year, which you are glad to do.

Without further comment, we just commend you on the fine job you have done in the past and the job you are doing now. We are confident that you will be able to meet the needs in your area.

Governor Wilkinson, you might present to the committee anyone who is new, and we will have the record show a biographical sketch. We will let you open with a general statement, if you would like.

Mr. WILKINSON. Thank you, Mr. Chairman and members of the committee.

I would like first to introduce to you those who are with me here at the table and then three other special people who honor us by their presence today.

We have with us the newly elected Chairman of the Federal Farm Credit Board, the highest policymaking body within the Farm Credit System, Mr. Dale Nix, representing the State of Texas.

To my right is our Senior Deputy Governor, Terry Fredrickson; our Director of Administration, Mr. Paul Redmer; and our General Counsel, Mr. Fred Medero.

There are three additional people. Mr. Owen Cooper from Mississippi is a member of the Federal Farm Credit Board as are Mr. John Naill from Arkansas and Mr. Ralph Raikes of Nebraska.

It is unusual to have this many of our 13-member board at an appropriations subcommittee hearing.

Mr. WHITTEN. We are glad to have you all here.

[The biographical sketches follow:]



Wm. Dale Nix
Member

Federal Farm Credit Board
Farm Credit Administration
Washington, D.C. 20578
1/80

Wm. Dale Nix, a rancher and cattle feeder from Dallas and Canadian, Texas, was appointed to a six-year term on the Federal Farm Credit Board in 1977. He represents the Tenth Farm Credit District, which serves Texas.

The Federal Farm Credit Board is the top policy-making body for the lending units of the Farm Credit System and for the Farm Credit Administration, the Federal agency which supervises the system. Lending units of the system include the Federal Land Banks, which make long-term farm mortgage loans through local Federal Land Bank Associations, the Federal Intermediate Credit Banks, which provide funds for short- and intermediate-term farm loans by local Production Credit Associations, and the Banks for Cooperatives, which finance farmer cooperatives.

The Federal Board consists of 13 members, 12 of whom are appointed for six-year terms by the President of the United States with the advice and consent of the U.S. Senate. Under ordinary circumstances, two members are appointed each year. The thirteenth board member is appointed by the Secretary of Agriculture and serves as his representative. Board members serve part-time, generally meeting six to eight times each year.

Nix operates a 17,500-acre ranch and is part owner of a commercial feedlot which finishes cattle to slaughter weight. He is a former director and current member of the Canadian Production Credit Association and the Spearman-Pampa Federal Land Bank Association, a member of several cattlemen's organizations and the Farm Bureau, and a former member of the board of directors of the Texas Farm Credit Banks. He is a graduate of Texas A&M University in College Station with a B.S. degree in agricultural administration specializing in marketing and finance.



Donald E. Wilkinson
Governor

Farm Credit Administration
Washington, D.C. 20578
8/80

Donald E. Wilkinson, as governor of the Farm Credit Administration, heads the independent Federal agency responsible for supervising the nationwide farmer-owned Farm Credit System which makes loans to farmers, ranchers, fishermen, rural residents and agricultural cooperatives. Units of the System include the Federal Land Banks and the Federal Land Bank Associations, the Federal Intermediate Credit Banks and the Production Credit Associations, and the Banks for Cooperatives.

Wilkinson became governor on March 1, 1977, upon his appointment by the Federal Farm Credit Board. Before joining FCA, he served 1½ years as administrator of the Agricultural Marketing Service, an agency of the U.S. Department of Agriculture.

Before joining the Department of Agriculture, Wilkinson served from 1969 to 1975 as secretary of the Wisconsin Department of Agriculture. He began his career with the state agency in 1948 and held various positions including chief of the Marketing Division and assistant secretary.

Wilkinson has been an active member of various agricultural organizations and has served as president of two associations, the National Association of State Departments of Agriculture, 1973-74, and the National Association of Marketing Officials, 1964. He also served on USDA's Marketing Advisory Committee, 1961-63, USDA's National Meat and Poultry Inspection Advisory Committee, 1969-75, and the Federal Energy Office's Agricultural Advisory Committee, 1974.

Among the various honors Wilkinson has received are a Joint Resolution for Distinguished Achievement by the Wisconsin Legislature, a Commendation for Distinguished Service by the Governor of Wisconsin and an Honorary American Farmer Degree from the Future Farmers of America.

A native of Benton, Wisconsin, Wilkinson earned degrees in agricultural economics and agricultural education from the University of Wisconsin in Madison. He maintains an interest in farming through joint ownership with his brother of the 515-acre family farm in Lafayette County, Wisconsin. During World War II, he served in the Army Air Corps as a B-29 Superfortress pilot with combat duty in the Pacific Theater.

Wilkinson and his wife, Elizabeth, are the parents of three grown children. They reside in Annandale, Virginia.



Frederick R. Medero
General Counsel

Office of the General Counsel
Farm Credit Administration
Washington, D.C. 20578
8/80

Frederick R. Medero was named General Counsel of the Farm Credit Administration on June 2, 1980. Under his direction, the Office of the General Counsel performs legal services for the Federal Farm Credit Board, the Governor of the Farm Credit Administration and members of his staff, and consults with and coordinates work of attorneys employed by the banks of the Farm Credit System.

The Farm Credit Administration is the independent Federal agency that supervises, examines and regulates the cooperative Farm Credit System which makes loans to farmers, ranchers, fishermen, aquatic producers, rural residents and agricultural cooperatives. Units of the System include the Federal Land Banks and the Federal Land Bank Associations, the Federal Intermediate Credit Banks and the Production Credit Associations, and the Banks for Cooperatives.

Before joining FCA, Medero was director of the Securities Disclosure Division of the Office of the Comptroller of the Currency in Washington, D.C. His responsibilities included advising the comptroller, the chief counsel and senior officials on matters relating to the Securities and Exchange Act, the Change in Bank Control Act, the Glass-Steagal Act, trust department operations, and debenture and stock offerings. He also coordinated the division's activities with the Comptroller of the Currency's regional offices.

Before joining the Office of the Comptroller of the Currency in 1976, he was a senior associate with a law firm in Louisville, Kentucky, where he represented financial institutions in SEC and Federal bank agency matters, mergers, branching, tax qualifications and franchising. From 1970 to 1974, he was an attorney advisor and then a senior attorney with the Securities and Exchange Commission, working first in its Division of Enforcement and later in its Division of Corporation Finance.

A native of New York City, Medero holds a B.A. degree from Queens College, Flushing, New York, a J.D. degree with honors from St. John's University School of Law, Jamaica, New York, and an LL.M. degree in corporate securities law from New York University School of Law, New York City. He is a member of the New York, Kentucky and District of Columbia bars.

Mr. WHITTEN. I make special reference to Mr. Cooper whom I have followed through the years.

We are glad to have Mr. Cooper here. He is a long-time friend. And we are glad to have you other gentlemen.

Mr. WILKINSON. Mr. Chairman, I believe that you and the committee have before you our report to you.

Mr. WHITTEN. Without objection, it will be inserted in the record at this point.

[CLERK'S NOTE.—The Explanatory Notes appear on pages 342 through 354 and the Report to Congress appears on pages 355 through 391.]

OPENING STATEMENT

Mr. WILKINSON. I would like to refer you to the highlight page, and only touch on possibly three or four issues in there which I hope will then lead us to a discussion which will be of value to you.

We will attempt to respond to any questions at any time that you would choose.

We would first take a look at the agricultural year 1980. It was not a banner year. I need not tell several of you Members that particular piece of news.

We do acknowledge that we had some improvement in commodity prices in agriculture as a whole, although Mr. Nix, a cattleman, reminds me that this is not universally true for all commodities and for all regions. But we did see some general improvement in commodity prices last year.

FARM INCOME

The great concern that agriculture faced in 1980 was soaring production costs, up some 11 percent, with such significant increases as fuel and energy up 39 percent and fertilizers up 23 percent. We would have to recognize, gentlemen, that credit costs were up and down, but, overall, these costs increased by 11 to 12 percent during the year. As you know, we dealt with a shortage of credit last year in many areas and high costs countrywide.

As a result, gentlemen, net farm income dropped from a level of $31 billion in 1979 to what is now estimated to be $25 billion in 1980. Nearly a 25-percent decrease.

Again, I would emphasize, returns from farming were not shared equally. You know of farmers in your own districts. Some in certain commodities have fared well; others, not so.

EXPORTS

The bright spot, Mr. Chairman, is one which has been of interest to you and other Members, and that is in the agricultural export area. Forty and a half billion dollars' worth of agricultural commodities were exported from the United States last year. That is a 27-percent increase over the preceding year, more of it in the value of the commodity than in the quantity.

This countered part of the $81 billion that we paid for oil imports. As a result, the U.S. ended up with an $18-billion deficit in the total balance of payments. But agriculture is a significant,

positive contributor to the total balance of payments of the United States.

Let us take a look at what is happening with the farmer and the consumer dollar. Last year, the farmers shared about 31 cents out of the consumer food dollar, down slightly from the two preceding years. This decline reflects the trend of more of the consumer food dollar being spent on processed commodities and processed foods.

PROJECTIONS FOR 1981

With that look backward, may we now take a look at 1981? We will share with you what we, as lenders, anticipate here.

Net farm income is projected to be a little higher in 1981 than it was this last year—up around $28 to $31 billion, but still short of the 1979 year in agriculture.

We are concerned, frankly, with present drought conditions prevailing in many States and in many commodity areas across this Nation. But we do believe that there will be an improvement in commodity prices to warrant this increased optimism about agricultural incomes.

Production costs are continually escalating. We are concerned, again, that the cost of energy and fuel will, of course, be even higher in 1981. The timing, perhaps, of the oil decontrol program is not necessarily in the interest of agricultural producers. We look to the spring production needs of farmers and we do not know yet what the impact of the accelerated decontrol will be upon fuel costs for farmers.

Interest costs will remain high in 1981, following the Federal Reserve's and, presumably, the Administration's efforts to bring inflation under control. And, members of the Committee, we have to recognize that inflation is still the farmers' and the consumers' greatest enemy.

Farming assets have continued to increase, nearly up to a trillion dollars. Farm assets, incidentally, have increased three times in one decade, much of it due to the increased value of land.

Farm debt as of the end of 1980 stood at $180.5 billion. The increase in farm debt slowed down slightly last year because farmers were tightening their belts. They were subject to the credit restraint efforts. They were postponing many purchases, not only in the production area but especially capital items such as tractors, silos, barns, and so on.

DEBT STRUCTURE

We would direct your attention as we go down through this page of highlights, to some of the shifting of the debt structure of agriculture. Much of the farm debt was in programs that you will be taking a look at, Mr. Chairman, within the U.S. Department of Agriculture.

The Government's loan program, the Government's direct payment program, declined slightly this past year. Moreover, there has been a change in emphasis of Farmers Home Administration efforts into the economic disaster program and the natural disaster program. FmHA programs amounted to about $13 billion in 1981 which is a little over 15 percent of the total farm debt.

We look at the role of commercial banks in agriculture—their share of the farm credit market. Commercial banks still lead in the

short-term production credit market by supplying some 37 to 38 percent of that market.

PCA's are next in line, holding about 25 percent of the short-term production credit market. There was somewhat of an unnatural shift in this market last year because, as Mr. Myers and others who are familiar with the banking industry know, there was a very tight credit situation existing in many of our rural commercial banks. That is where the Farm Credit System had to move in at times and make credit available.

The Federal land bank program supplies 38 percent of long-term real estate credit to farmers.

INTEREST RATES

I would like to refer you to another page in our 1981 Report to Congress, concerning the cost of money, which dramatizes this beautifully. On page 21 there is a chart which shows what has happened to interest rates in the public money market, which is where the Farm Credit System secures its funding through the sale of securities. Please note the degree of stability that prevailed during most of the decade of the 1970's, with some slight ups and downs. And then look at 1980.

Last April we paid 17.25 percent for money on Wall Street—a record for the 64 years of history in the Farm Credit System. The rate then dropped to a low of 7.9 percent in July and then came back up, as you know, at the end of the year. It has eased off only slightly since then.

So, 1980 was a very volatile year, with the prime up to 20-plus, down, and then up again.

We anticipate System money costs in 1981 will continue to be at a high level but, hopefully, will not be as volatile as we witnessed in this past year.

OFI PROGRAM

Another significant point in our report, Mr. Chairman, that we would flag for your attention is the increasing cooperation between the cooperative Farm Credit System and the rural commercial banks. I would say that there still has not been enough cooperation. But we will see more of it in 1981 and 1982. Much of the cooperation we had last year came as a result of the tight situation in the commercial banking industry, bank deregulation, and other reasons.

The other financial institution (OFI) program of the federal intermediate credit banks, which supplies loan funds to commercial banks, increased 20 percent last year. As we close the year, we have three quarters of a billion dollars extended through the FICB's to the commercial banking industry.

YOUNG FARMERS

I would add here that the System continues to play an active role in supplying credit to young farmers. Thirty-nine percent of all of the loans made by PCA's last year were to young farmers. By "young" I mean farmers under 35 years of age.

Mr. WHITTEN. How many of those inherited their land? I understand that a young fellow cannot buy land now unless he pays more than it is worth, or if he rents, he pays more rent than it is worth. Do you have any indication of whether they inherited their land?

Mr. WILKINSON. We do not necessarily have that information, but you are basically correct in your statement. It is most difficult for a person to enter farming without inheriting a farm.

Mr. WHITTEN. Somebody said one of the reasons they were behind financially was that there had been lots of young farmers—college graduates—that thought you could buy a new pickup truck every year, put a rifle behind your head, and pick up and go to Colorado for skiing. The thought you only had to work about three months in the spring and about three months in the fall.

I do not mean that is true about every young farmer. Is that the reason your percentage of loans has increased for those young farmers?

Mr. WILKINSON. No, Mr. Chairman.

Mr. WHITTEN. The older farmers know you have got to pay it back.

Mr. WILKINSON. We put a tag on those—those farmers who have a pickup truck and a rifle in the back and often—excuse me, Mr. Nix—have a big hat.

Mr. WHITTEN. Why are you apologizing to him? Is he one of those? [Laughter.]

Mr. WILKINSON. No.

We put a tag on those farmers and call them our "one-year farmer" or "one-year borrower" because if they have been able to convince a loan officer——

Mr. WHITTEN. I do not agree that that is a common occurence, but I did have a farmer say that was one of the problems.

CREDIT QUALITY

Mr. WILKINSON. You are leading us to another point that we would just direct your attention to but we will not dwell on. The credit quality within the Farm Credit System this past year remained very stable. Farmers were paying back their loans, generally on schedule. We saw no serious trend one way or the other, and we do have reports in our book along that line as well.

FARM CREDIT AMENDMENTS

Finally, Mr. Chairman, we would thank the members of this committee for the opportunity to proceed into 1981 with new authority granted us by the Farm Credit Amendments of 1980, and we have highlighted those for your recollection on the last two pages of this report.

One of the most significant provisions of the Act is the authority for our banks for cooperatives to provide funding and service to cooperatives as they enter the international marketing arena. That authority has never been available to us before.

Mr. Chairman, this concludes my opening remarks..

Mr. WHITTEN. One of the problems that bothers me is this. Historically, lots of people have thought cheap raw materials made

this country great. That was doubtless true when we had unlimited natural resources and plenty of farmland out in the Midwest. But if you move west now, you can go a long way, to California and Hawaii, and most of the land is taken up. So we no longer have that.

SHARE OF THE CONSUMER DOLLAR

I mentioned yesterday that I had a person who was in the cattle business talk to me. He said lots of cattle people are claiming they are not making money, but that he was making money. I said, "What did you pay for your land?" He said, "$120 an acre." I said, "What is it worth?" He said, "$1,000 an acre." I said, "How would you do if you charged anything against your gross income for the use of $1,000-an-acre land," and he said, "Well, that would be a different picture."

With that background, I am just afraid that many people today do not realize that industry and labor, under law—privileges granted by law—are taking a bigger and bigger share of the consumer dollar and leaving less and less for agriculture.

Do you have figures showing the declining percentage of the consumer dollar that the farmer has been receiving? Do you have figures that could be inserted in the record?

Mr. WILKINSON. Yes; we surely would have those. I did indicate that about 31 cents out of the consumer food dollar goes to the farmer.

Mr. WHITTEN. How many years ago was it that it was about 50 cents?

Mr. WILKINSON. It differs regarding commodities. But, again, it is that degree of processing and labor and all of those costs that go into it.

Mr. WHITTEN. The point is that the farmer now, in turn, buys from 69 cents. All those things are added into these costs.

Without objection, those figures will be included in the record at this point.

[The information follows:]

Farm value of consumer retail expenditures for farm foods, 1945–80

[In percent]

Year:		Year:	
1945	52	1963	32
1946	51	1964	32
1947	51	1965	33
1948	49	1966	34
1949	40	1967	32
1950	41	1968	32
1951	42	1969	33
1952	40	1970	32
1953	38	1971	31
1954	37	1972	33
1955	35	1973	37
1956	35	1974	37
1957	35	1975	33
1958	35	1976	32
1959	33	1977	30
1960	33	1978	32
1961	33	1979	32
1962	32	1980	31

Mr. WHITTEN. If, under law, we are letting industry and labor get a bigger and bigger share, does it not follow that the farmer is getting less? Then, are not these costs that industry and labor got, really being paid back to the farmer in price supports that have already been given to industry and labor? The farmer is just tagged with the receipt.

Mr. WILKINSON. Your overall philosophy, I think, is one that is not understood by many taxpayers. Any financial subsidies that go to farmers are, in essence, supporting or subsidizing the cost of food to all of us as consumers. It is a direct payment to farmers—true—but it is that mechanism through which you lower the cost of food.

SOIL CONSERVATION PROGRAMS

Mr. WHITTEN. There has been testimony in years past that raw material income is magnified about seven times in the economy. I have had people cite facts and figures to support that view.

I had a man in my office some days ago from Louisiana. He recalled a talk that I had made. In that talk, I had said that we did not owe it to any farmer or landowner to take care of the land, but we owed it to ourselves to see that it was taken care of, and if the farmer did not take care of the land we had better do something about it. He quoted the words that I had used. I was kind of flattered that he remembered.

Over the years, this committee has recommended taking care of the soil conservation programs, and the Congress has supported us 28 times out of 28. It has been my observation that these programs cost mighty little compared to the total effort, but they do set an example.

As I have frequently said, a lady on the street will make her husband paint their house, and the first thing you know other houses are being painted. You get some of these people started with a little bit of Government assistance, and then they go in and spend many, many times what the Government contribution is to save their land for the future.

CONCERN FOR AMERICAN AGRICULTURE

We have a new Congress. From reading the papers, I note that the new Administration seems to have read some books and not read others. You know, you cannot read a book on experience. I am afraid that some of the things I read that they are saying show a lack of experience when it comes to agricultural commodities, and it frightens me.

The high rates we pay for labor and the high rates that we pay for machinery put our farmers at somewhat of a disadvantage in world markets. That is the reason that the Commodity Credit Corporation has authority under its charter to sell commodities at competitive prices.

I was on this committee when the Secretary of Agriculture held about $10 billion worth of commodities off the world markets by setting a fixed price. The rest of the world sold right under our offering price. We finally insisted on this Committee that they offer those commodities in world trade for what the market would bear, and they moved right along.

I was also here when it was recommended by the Department to have flexible parity. If you will recall, this meant that if they had a tremendous supply you would reduce supports so that they would quit producing, and if there was a tight supply situation where they wanted more, you would give them high supports.

What that means is, when they needed support, you did not have it, and when they did not need it, you had a wonderful support, opposite to what was needed.

I recall when we had a great drought in Texas. It was when Mr. Benson was Secretary of Agriculture. So he said that they would buy up the cattle. You and I know that if you have got too many cattle on the market, to flood it with some thin cows does not help it. What he needed to do was supply feed so that they could hold them until they could feed them into the market.

At that same time, the price of pork was down. He said, if it got as low as 11 cents a pound, he would buy it. So, of course, it went down to 11 cents so he would buy it.

The point I am making is that fewer and fewer people and fewer and fewer Congressmen are coming from farm areas. We have our hands full getting this point over to the general public and to the press.

I will close with one little statement here. Years ago, I spoke at San Diego before some agricultural group. At that time I was also on the Appropriations Committee for Defense. I was interviewed that night, and just as I got through with that interview about my speech on agriculture, this fellow asked me about a failure we had had at Cape Canaveral. I said, "Yes. That is the difference between the U.S. and Russia. We advertise our failures, and they advertise their successes."

The next day, after making that good agriculture speech, all I heard quoted was this offhand comment about the military. I commented on that to the newspaperman who followed my speech, and he was going to see to it that the agriculture speech would get a good play the next day. His paper killed that and came out with a story about San Diego County not getting its fair share of federal funds. It was a big agricultural county.

The point of it is, these newspapers were right—their folks did not care to read about agriculture. They were wrong in what they said, but I am just telling you what is correct.

ASSETS AND LIABILITIES

I would like one other set of figures. I wish you would put in the record the average value of a farm today—the average investment, which would mean the value. The man might have bought it years ago. I mean the money that he has invested either from past investment or from present value, and the value of equipment. Would you do that?

Mr. WILKINSON. Certainly.

Mr. WHITTEN. Without objection, it will be included in the record at this point.

[The information follows:]

Average value per farm, Jan. 1, 1980

Assets:	
Real estate	$265,751
Machinery and vehicles	38,289
Crops and livestock	40,854
Financial assets	10,639
Total farm assets	355,533
Liabilities:	
Real estate debt	32,472
Nonreal estate debt	28,997
CCC loans	1,949
Total farm liabilities	63,418
Equity	292,115

Mr. WHITTEN. I guess we had better recess to vote.

[Recess taken.]

CREDIT ELSEWHERE TEST

Mr. WHITTEN. The committee will come to order.

You might spell out in the record the way you obtain money and how it traces through your operation.

One thing that we missed in the opening statement was the number of borrowers that you have turned down because of inadequate security, where the Farmers Home Administration has had to step in and finance them. Do you have a record of that?

Mr. WILKINSON. We do not.

Mr. WHITTEN. I may have worded it improperly, but I am interested to know the number of people who you were no longer able to carry and who had to turn to other sources. Do you keep any record of that, or do you have any comment on it?

Mr. WILKINSON. I am going to ask Mr. Fredrickson to respond to that from his years of experience.

Mr. WHITTEN. I understand the Farmers Home Administration has over $40 billion in loans outstanding. That would include housing loans and loans for many, many other things other than just agriculture. But the borrowers have to certify that they cannot get the money elsewhere. Could you give us any estimate of how many

certificates you have issued that made the borrower turn to other areas for financing?

Mr. FREDRICKSON. Mr. Chairman, we do not have that information in our report, and I do not have it at hand. We can provide you, I think, with pretty clear estimates for the record.

Mr. WHITTEN. I would like to have it. I am just talking about the condition which prevails.

Without objection, it will be included in the record at this point.

[The information follows:]

CREDIT ELSEWHERE CERTIFICATES

Because of the limited time frame for responding to this question, we have not been able to make a comprehensive sampling of many of the banks and associations of the Farm Credit System; however, we did make telephone contact with senior officers in three district banks to determine if they had any such information available or if it could be obtained. All three banks responded unanimously that they kept no such records but did state that there were no indications that a substantial number had been signed or issued.

Our Economic Analysis Division advised that it had no access to any such records and further stated that the various computer centers in the System did not provide this information.

Finally, we contacted the Director-Emergency Loans at Farmers Home Administration to determine if they were maintaining this information. He advised that they were not and that it would be impractical to do so since in most cases they required each applicant to provide such certification from at least three creditors.

In order to respond as accurately as possible to this question, the Farm Credit Administration will, in the very near future, contact a representative number of banks in the System and request they canvass their associations to determine, if possible, the number of these transactions that have occurred. Based on this survey, we hope to provide a reasonable estimate as promptly as possible.

FEDERAL FINANCE BANK

Mr. WHITTEN. In one of the newspapers, I read where the new Budget Director was calling for the Tennessee Valley Authority and certain other Government activities to turn to new sources of financing. That is, they could not use existing sources.

Do you have any special way in which you borrow money which enables you to borrow at lower rates than might be charged in other areas? Did you read the article I read, or are you familiar with that?

Mr. WILKINSON. I have read the article, and we have been following that kind of discussion rather carefully, Mr. Chairman.

Mr. WHITTEN. Then please describe for me what is involved in it.

Mr. WILKINSON. The Congress, many years ago, granted the Farm Credit System the authority to go to the public money market once it was no longer dependent upon Government money and had totally repaid its capital to the Government.

The System goes to the same money market that the Government itself goes to. We are what is identified as a sponsored entity, the same as the Federal Home Loan Bank Board and some of the others.

The point that I think the article you referred to was speaking of is that the Tennessee Valley Authority does not have the same direct access to the public money market that you have granted to the Farm Credit System.

The TVA borrows its funds through the Federal Finance Bank, and Mr. Stockman and others have been exploring the possibility of perhaps bringing the Federal Finance Bank under some kind of

control or constraint, as well as the direct appropriated bodies of the Executive Branch.

It would be of special concern if the Administration or Congress should ever look to attempting to impose similar kinds of restraints upon the Farm Credit System, which does go to the public money markets.

COOPERATION WITH TREASURY DEPARTMENT

Mr. WHITTEN. Do you cooperate with the Treasury Department in planning your sale of debentures?

Mr. WILKINSON. This is very important. The answer is definitely yes. When we go to the market for the sale of our securities, which we do 16 times a year, and for the sale of discount notes, which we do almost daily, we consult with Treasury. We do so because we regard it as very important that we not come into that market attempting to sell 3 to possibily 4 billion dollars at the same time that the Treasury is or the Home Loan Bank or some other similar organizations.

So we have a policy of coordination and communication with Treasury. We confer with the Treasury prior to going to market and try to determine what terms would be most acceptable that would not compete with their issues.

Mr. WHITTEN. I recently ran across my speech which I put in the record on the 50th anniversary of the creation of the Farm Credit Administration. I think you have done a great job.

I do remember when some of the Federal land banks were trying to pay off their debt to the U.S. Treasury. I raised the question—I think Mr. Myers will appreciate this—whether they should pay it all off. I always like to owe the bank a little bit so I have my credit established. Sooner or later, you may need additional credit, and so you might as well just hold back a little bit before you cut the ties loose. You have not had any problems with that?

Mr. WILKINSON. We have had no problem, and it is our hope we never will have to come back.

FARM ASSETS

Mr. WHITTEN. What are the total assets held and debt owed by farmers today, and how does that compare with each of the last ten years?

Mr. WILKINSON. The market value of farm sector assets are estimated at $1 trillion as of January 1, 1981. This milestone was reached despite only a 9 percent gain in 1980, the lowest rate of gain since 1977. Real estate assets make up about three-quarters of total farm assets.

Farmers owed an estimated $180.5 billion at the beginning of 1981. Real estate secured debt totaled $96.1 billion. Nonreal estate debt was $79.7 billion and CCC debt was $4.7 billion. I will, if I may, provide statistics on debt since 1970 for the record.

[The information follows:]

COMPARISON OF ASSETS WITH DEBT

[In billions of dollars]

	Farm assets	Farm debt
January 1:		
1970	$314.9	$53.0
1971	326.0	54.5
1972	351.8	59.1
1973	394.8	65.3
1974	478.5	74.1
1975	517.5	81.8
1976	580.2	90.8
1977	641.7	102.6
1978	697.6	119.3
1979	804.4	136.1
1980 [1]	918.9	157.3
1981 [2]	999.3	180.5

[1] Preliminary
[2] Estimated.

DEBT RATIOS

Mr. WHITTEN. What has been the trend in the ratio of farm debt to equity, and in the ratio of debt outstanding to net farm income?

Mr. WILKINSON. In recent years, farm debt has grown more rapidly than farmers' equities and incomes. The ratio of farm debt to equity has been generally rising since 1975, rising from 18.8 percent in 1975 to 22 percent in January 1981. If the ratio of farm debt to net cash income from off-farm sources is included, the ratio increased more slowly. I will, if I may, submit for the record the recent trend for each of these ratios.

[The information follows:]

DEBT RATIOS

	Ratio of farm debt to equity	Ratio of farm debt to net cash income from farming	Ratio of farm debt to net cash income from farm and off-farm sources
January 1:			
1975	18.8	2.55	1.37
1976	18.6	2.80	1.45
1977	19.0	3.54	1.89
1978	20.6	3.06	1.76
1979	20.4	3.29	1.80
1980	20.7	4.00	2.04
1981	22.0		

COMPETITION AMONG COMMERCIAL BANKS

Mr. WHITTEN. Has the change in these ratios had any effect on competition among commercial banks to provide farm loans?

Mr. WILKINSON. The amount of funds commercial banks channel into agriculture is primarily predicated on the profitability of investments available to commercial banks. Competition among commercial banks to provide farm loans is great when other investment opportunities decline. The increase in ratios in recent years does not appear to have impacted on their competitiveness.

SYSTEM'S MARKET SHARE

Mr. WHITTEN. Do you have any information as to the share of total farm debt which is serviced currently by commercial banks as opposed to Federal programs? Can you provide similar information for the past several years?

Mr. WILKINSON. At the start of 1981, commercial banks held 22.2 percent of total farm debt. This breaks down to 37.2 percent of nonreal estate debt and 9 percent of real estate debt. Together, FmHA and SBA held 16.2 percent of total farm debt, which breaks down to 23.9 percent of nonreal estate debt and 9.4 percent of real estate debt on January 1.

I will be glad to supply a table displaying this information for the past several years.

[The information follows:]

SHARE OF THE FARM DEBT HELD BY COMMERCIAL BANKS AND FEDERAL PROGRAMS,[1] JAN. 1, 1978 TO JAN. 1, 1981

[In percent]

	Commercial banks	Federal lending programs
Total farm debt:		
1978	28.1	10.0
1979	27.1	12.4
1980	25.2	14.3
1981	22.2	16.2
Real estate debt:		
1978	12.2	6.3
1979	12.1	5.8
1980	10.5	8.0
1981	9.0	9.4
Nonreal estate debt:		
1978	46.2	14.2
1979	43.3	19.5
1980	41.3	21.1
1981	37.2	24.0

[1] Include loans by FmHA, SBA, and CCC.

ABILITY TO REPAY

Mr. WHITTEN. Doesn't any trend toward greater debt make it more likely that when farmers come up against hard times and still have to service outstanding debts, they will be forced out of business?

Mr. WILKINSON. The relationship between farm income and debt is rather complex. Borrowing may be used to acquire assets intended to increase future income, or, in hard times, to provide a supplement to low income. Interest costs on debt are paid out of gross income, so as long as gross income generally keeps pace with debt, the farmer should not be forced out of business.

CREDIT AVAILABILITY

Mr. WHITTEN. What is your feeling as to the general availability of credit for agricultural endeavors, and whether or not it is being met sufficiently today by a combination of organizations, and where your own strength lies?

Mr. WILKINSON. The general availability of agricultural credit in 1981 is quite favorable for those producers able to pay competitive interest rates for loans. Commercial banks appear to be back strongly in the market and insurance company loan activity is rising. With this increase in availability and the Farm Credit System's position as the residual supplier of funds when other institutions are unable to meet all the credit needs of farmers, credit availability today is satisfactory.

The Farm Credit System's own strength lies in its explicit charter to supply credit to agriculture. I mentioned that the System serves as the residual supplier of credit to agriculture. When other institutions cannot fully meet the agricultural credit demand, as occurred in 1980, the System picks up the slack. A further strength lies in the System's ability to access the money market and supply funds to farmers at very competitive rates.

PROJECTED LENDING LEVELS

Mr. WHITTEN. What trends do you see in the level of your lending over the next 5 years?

Mr. WILKINSON. Inflation will continue to drive up the general price level and the costs of farming. We estimate that the rise in farm debt, plus an increase in the market share of farm debt held by PCA's and FLB's, will almost double total System outstandings by the end of 1985. Our forecast is for total System debt of between $110 billion and $160 billion, compared to $68 billion at the beginning of 1981.

AGRICULTURAL EXPORTS AND FARM INCOME

Mr. WHITTEN. What proportion of total U.S. farm income is provided by commodity exports, and what has been the trend of this proportion over the last 10 years? Please provide a tabulation for the record.

Mr. WILKINSON. There has been a dramatic increase in the proportion of total farm income which comes from agricultural export sales. I will insert in the record a table which summarizes the dollar amount of U.S. farm exports and the share of gross farm income this amount represents during the last 10 years. Since the export value includes some marketing costs, the farmers' earnings from exports are slightly less than that shown, but this would not significantly alter the trend.

[The information follows:]

AGRICULTURAL EXPORTS AND FARM INCOME

	Farm exports (billions of dollars)	Share of gross farm income (percent)
Year:		
1971	7.7	12.4
1972	9.4	13.2
1973	17.7	17.9
1974	22.0	22.4
1975	21.9	21.8
1976	23.0	22.6
1977	23.6	21.7
1978	29.4	23.2

AGRICULTURAL EXPORTS AND FARM INCOME—Continued

	Farm exports (billions of dollars)	Share of gross farm income (percent)
1979	34.7	23.2
1980	41.0	26.5

IMPACT OF GRAIN EMBARGO

Mr. WHITTEN. Please provide your comments as to the effects you have observed in the Farm Credit System which may be attributed to export embargoes of American-produced farm commodities.

Mr. WILKINSON. While export embargoes affect all three parts of the Farm Credit System, the most observable effects are usually among our cooperative borrowers. Some of our producer cooperatives have worked hard to develop specific export markets and have geared their production with such markets in mind. Most of the cooperatives we serve are involved in marketing farm products. Those involved in direct physical transport suffer from reduced business and costly locational problems when embargoes are imposed. The use of hedging for price protection can also be inverted by perverse basis shifts that can accompany embargoes. And, of course, any loss or costs incurred by cooperatives is ultimately borne by the farmer members.

PROBLEM LOANS

Mr. WHITTEN. What has been the trend with regard to the number and the size of problem loans and difficulties in repayment?

Mr. WILKINSON. Delinquency rates in the FLB system have not changed much in the last 5 to 10 years and continue to be quite low. As of midyear 1980, 1.8 percent of all FLB loans and 0.15 percent of FLB dollars outstanding were delinquent. This compares with 1.7 percent and 0.15 percent in 1979, and 1.7 percent and 0.16 percent in 1978. We have been more carefully monitoring repayment rates as a result of last year's agricultural problems, including drought-related stress, to System borrowers. So far, the repayment rates have been stable and no significant deviations from the trend in recent years have become apparent, although rates in 1980 were slightly below the previous 3-year average. We will continue to watch developments as 1981 unfolds because of the wide range of conditions farmers are facing.

PCA loans classified "problem" increased 1.3 percent from the 1979 level to 13 percent in 1980. In addition, loans classified "vulnerable" increased 0.2 percent to 0.6 percent and "loss" loans increased 0.1 percent to 0.3 percent. However, 1979 was a particularly good year. The levels in 1980 were better than many of the levels in the 1970's. If I may, I would like to submit statistics on PCA loan classifications since 1969.

[The information follows:]

PRODUCTION CREDIT ASSOCIATIONS SUMMARY OF LOAN CLASSIFICATIONS [1]

	Acceptable (percent)	Average amount	Problem (percent)	Average amount	Vulnerable (percent)	Average amount	Loss (percent)	Average amount
1969	84.7		13.7		1.1		0.5	
1970	84.8		13.5		1.1		0.5	
1971	83.4		14.6		1.3		0.7	
1972	84.5		13.8		1.2		0.5	
1973	88.0		10.9		0.8		0.3	
1974	88.3		10.5		0.8		0.4	
1975	82.0		15.5		1.7		0.8	
1976	81.7		16.1		1.4		0.8	
1977	82.8	57,780	15.6	126,418	1.1	113,224	0.5	69,729
1978	85.6	61,612	13.4	125,057	0.7	105,256	0.3	57,760
1979	87.7	73,121	11.7	136,127	0.4	91,071	0.2	57,380
1980 [2]	86.1	82,338	13.0	154,448	0.6	124,256	0.3	95,719

[1] Percent dollar volume (percentage based on sample classified).
[2] Preliminary.

PCA collection rates were about equal to the previous 3-year average. However, they varied considerably by district, reflecting the uneven impact of adverse events in 1980. Overall, PCA borrowers appear to be in pretty good shape.

RESERVE FOR LOSSES

Mr. WHITTEN. For the past several years, what were your reserves for losses as a percent of total loans outstanding?

Mr. WILKINSON. Reserve for losses (provision for losses) as a percent of total loans has not changed significantly. In other words, the rate of reserves has been maintained at levels that coincide with the growth of loans outstanding.

The information you request would best be presented in a table. With your permission, we will provide a table for the record.

[The information follows:]

RESERVE FOR LOSSES

	Amount of loans outstanding [1]	Provision for losses [1]	As a percent of loans outstanding
Federal land banks/FLBA's:			
1978	$25,626,461	$381,072	1.5
1979	31,283,737	456,406	1.5
1980	38,137,543	533,809	1.4
Federal intermediate credit banks/PCA's:			
1978	15,112,201	451,309	3.0
1979	18,418,110	529,864	2.9
1980	20,160,313	605,602	3.0
Banks for cooperatives:			
1978	6,103,375	56,984	0.9
1979	8,091,007	69,648	0.9
1980	9,505,526	89,131	0.9
Total farm credit system:			
1978	46,842,037	889,365	1.8
1979	57,792,854	1,125,566	1.9
1980	67,803,382	1,228,542	1.8

[1] Thousands omitted.

INTEREST RATES

Mr. WHITTEN. Please provide the current range of interest rates charged borrowers by Federal land banks, production credit associations, and banks for cooperatives. Please also provide this information for the past several years, along with a comparison to rates charged by commercial banks.

Mr. WILKINSON. With your permission, I will provide a table with the requested information for the record.

[The information follows:]

PREDOMINANT INTEREST RATES

Date	FLB	BC	PCA [1]	Commercial bank prime rate
December 1980	10.25	13.75	13.25	17.75
December 1979	9.75	13.00	12.25	15.00
December 1978	8.50	9.75	9.75	11.50

[1] PCA rates are as of January 1.

GAO REPORT

Mr. WHITTEN. Please discuss the findings of any major studies which have been done recently on the Farm Credit System. I am thinking particularly of any further comment you may have on last year's GAO report.

Mr. WILKINSON. As I indicated last year, the January 25, 1980, GAO Report, "The Farm Credit System: Some Opportunities for Improvement" does not, we believe, provide a balanced view of what the System is doing in agriculture today. For one thing, the report ignores many of the System's accomplishments. For another, some of its conclusions are based on dubious assumptions. For example, the report claims that the System is serving non-agricultural needs based on data about some borrowers' net farm income. In fact, gross income figures for part-time farmers prove far more about their involvement in and commitment to agriculture than net farm income figures. The report also makes unproven claims such as that rural housing loans are significantly more costly to make and administer than agricultural loans. In short, we have some serious reservations about this GAO report.

I should mention, Mr. Chairman, that the Farm Credit Act Amendments of 1980 direct the Comptroller General to conduct an evaluation of the programs authorized by the Act. The Act requires an interim report to Congress no later than December 31, 1982, and a final report by December 31, 1984.

REQUEST FOR INCREASE IN THE ADMINISTRATIVE EXPENSES LIMITATION

Mr. WHITTEN. The Committee is very pleased to see that you are not requesting deletion of your Administrative Expenses Limitation this year. However, you are requesting increases in all categories of expense except those for equipment and for "communications, utilities, and other rent." These requested increases total

$2.782 million, which is an increase of more than 20 percent over your Administrative Expenses Limitation for fiscal 1981. Please provide, for the record, the 1980 base cost for each of these items, the increase or decrease you are requesting, and the percentage of increase or decrease over the base.

Mr. WILKINSON. I will be glad to furnish that information for the record.

[The information follows:]

EXPENSE LIMITATION

[Dollars in thousands]

	1980 approved	1981 [1] approved	Change		1982 requested	Change	
			1981 amount	1980 percent		1982 amount	1981 percent
Personnel compensation	$7,643	$7,994	$351	4.6	$10,191	$2,197	27.5
Personnel benefits:							
Civilian	707	806	99	14.0	1,013	207	25.7
Travel and transportation of persons	1,592	1,838	246	15.5	2,106	268	14.6
Transportation of things	32	8	−24	−75.0	10	2	25.0
Communications, utilities, and other rent	1,239	1,436	197	15.9	1,426	−10	−0.7
Printing and reproduction	135	133	−2	−1.5	159	26	19.5
Other services	818	844	26	3.2	1,012	168	19.9
Supplies and materials	192	227	35	18.2	268	41	18.1
Equipment	70	58	−12	−17.1	41	−17	−29.3
Excess granted over requested limitation		100	100	100.0		−100	
Total limitations	12,428	13,444	1,016	8.2	16,226	2,782	20.7

[1] The amounts shown for 1981 do not include the requested increase of $688,000 in the limitation for 1981.

PERSONNEL COMPENSATION

Mr. WHITTEN. It appears that you are requesting an increase of $1.566 million for personnel compensation for 17 additional full-time permanent positions, or somewhat in excess of $92,000 per new position. Please explain how this request was formulated. That is, what is the breakdown of within-grades, promotions, new positions, SES bonuses, other awards, increase in the daily rate of compensation for members of the Farm Credit Board, anticipated vacancies, and any other components leading to the net effect of a $1.566 million increase.

Mr. WILKINSON. I will submit a detailed analysis for the record.

[The information follows:]

Farm Credit Administration change in operating expenses, fiscal year 1982 over fiscal year 1981

Personnel compensation changes:	
Funding of previously authorized but unfilled positions (17 permanent)	$432,000
Temporary positions	18,000
Promotions	143,000
Within grade increases	124,000
Awards, bonuses, and merit pay increases:	
SES bonuses	66,000
Other awards	90,000
Accrued annual leave	16,000
Cost of pay raise, October 1980	677,000
Total personnel compensation	1,566,000

BUDGET ABSORPTIONS

Mr. WHITTEN. As you know, for those agencies which are "on-budget," a number of absorptions have been directed for 1981 which may also be carried over as base reductions for 1982 and beyond. These absorptions include such items as travel, the cost of the October 1980 pay raise, and procurement of consultant services and furniture. Is FCA absorbing such costs, or are they fully funded in the requested increase of $688,000 in the limitation for 1981? Is the Agency absorbing such costs in 1982?

Mr. WILKINSON. Perhaps a little background on the budgetary status of the Farm Credit Administration would assist the committee in understanding the reasoning that supports our response to this question. The Farm Credit Act of 1971 vests the responsibility for budget actions of the Farm Credit Administration in the Federal Farm Credit Board. The Agency operates without cost to the U.S. taxpayers, and the funds required to operate the Agency are collected from the Farm Credit institutions.

The Act provides that the amounts collected from the Farm Credit institutions shall be deposited into the Treasury, credited to a special fund and, without regard to other law, shall be available to FCA for expenditure during each fiscal year for salaries and expenses of FCA.

Each year, the Federal Farm Credit Board gives careful consideration to its approval of both the new budget and the revised budget for the current year. At each bimonthly meeting, the Board reviews Farm Credit Administration's Budget performance and takes such action as it finds appropriate. Farm Credit Administration policy also requires an annual report to the Farm Credit district boards on expenditure of assessments for FCA expenses. This means that Farm Credit Administration budget actions are subject to close observation and comment by the institutions which provide the funds it uses, and is controlled by persons appointed by the President with the advice and consent of the Senate.

Every year, FCA's unexpended funds are returned to the Farm Credit institutions.

In response to OMB Circular 81-7 which required a 10 percent reduction in the fiscal year 1981 travel expense budget, the Agency absorbed $183,785 which was the required amount. There are no plans to reduce fiscal year 1982 travel at this point.

The Federal Farm Credit Board authorized by resolution the addition of the full October 1980 pay increase to the fiscal year 1981 and fiscal year 1982 budgets. The $688,000 supplemental budget request for fiscal year 1981 represents the full amount of the October 1980 pay increase.

FCA is not covered by the OMB circular on reduction of consultants. The Agency's consulting budget is relatively small and our past performance in this area indicates a conservative and prudent use of consultants. We do not plan a budget reduction in the use of consultants in fiscal year 1981 or fiscal year 1982.

The Agency is covered by the furniture and equipment freeze. We have suspended purchase or rental of any new acquisitions in accord with the OMB Bulletin requirements, but have not reduced the total budget for these items in fiscal year 1981 or fiscal year 1982. The bulletin instructs agencies to submit an equipment and

furniture expense plan to OMB by February 17, 1981. A reduction in our budget for furniture and equipment may occur at that time, but we are uncertain of the dollar amount at present.

AVERAGE GRADE INCREASES

Mr. WHITTEN. From 1980 to 1982, the average GS grade for your Agency has increased from 10.61 to 11.20. In addition, the number of positions shown at GS/GM-13 through 15 levels has increased from a total of 91 positions in 1980 to a total of the 114 positions in 1982, and the number of GS-16 employees has gone from zero to three. What accounts for this dramatic increase?

Mr. WILKINSON. The increase in the average grade of FCA employees, shown primarily by increases in the number at the GS/GM 13-15 levels is reflective of the business growth, business complexity and competitive employment market for agricultural credit and fiscal specialists. I will, if I may, insert in the record a chart which displays staffing at the GS/GM 13, 14, 15 and 16 levels for the 1980-82 period.

The fiscal year 1979 to fiscal year 1980 loans outstanding increased from $55.8 billion to $67.0 billion, a 20.1 percent increase. We are expecting steady growth that would cause Farm Credit System loans outstanding to double by fiscal 1985. The Agency will meet the increased demands of managing a larger organization, not by adding significant numbers of employees, but by using our positions in the most efficient way. This means that the Agency staff have to take on responsibilities and knowledges that were not required in the past. To acquire and retain staff for the expanded responsibilities, competitive pay must be offered. Therefore, average grade is budgeted to increase, and the number of employees at the GS/GM 13-16 level will increase.

[The information follows:]

POSITIONS AT GS/GM 13-15 LEVEL

	Fiscal year—		
	1980	1981	1982
GS/GM 15	19	22	21
GS/GM 14	35	39	44
GS/GM 13	37	41	49
Total positions GS/GM 13-15	91	102	114
GS-16	0	1	3

SOURCES OF SUPERVISORY MATERIAL

Mr. WHITTEN. What are your primary sources of information available for use in carrying out your supervisory responsibilities?

Mr. WILKINSON. WE WILL SUPPLY THAT INFORMATION FOR THE RECORD.

[The information follows:]

The primary sources of information that are routinely available for carrying out supervisory responsibilities include the following:

Examination performed annually by the Examination Division of the Farm Credit Administration. This includes an evaluation of fiscal and credit operations, along with an evaluation of management.

Credit review reports. These are performed by the bank in each production credit association and federal land bank association, and a copy of the report is furnished to the Farm Credit Administration. This review includes the full scope of credit operations in an association.

Formal reports required by FCA, which include complete financial information, lending activities, delinquencies, foreclosures, credit quality, etc.

Review of bank and district board minutes and bank input to the boards which are furnished to FCA after each monthly board meeting. These reflect some of the current issues being considered by the boards and the actions taken and often provide the basis for additional supervisory inquiry.

Policy approval. FCA regulations provide for FCA, along with the other policies which are furnished to FCA, important sources of information used in the supervisory process.

Bank procedure manuals. Copies of procedures which outline the basis for carrying out the bank's functions are furnished to FCA for our information.

Reviews of specific areas of bank operations. Supervisory information is developed through indepth reviews of specific areas of bank operations. These are performed in the bank and include reviews of files as well as interviews with those responsible for management of the function.

Periodic planned trips to associations with bank personnel.

Bank's internal audit program.

Miscellaneous: Attendance at bank meetings; meetings with bank management; routine memoranda from bank to associations, copies of which are furnished to FCA.

A supervisory officer is assigned to each district. There is an open line of communication between the officer and bank management that allows him to obtain significant information that may not be included in the formal reporting process.

LOAN COLLATERAL

Mr. WHITTEN. Do you continue to feel that it would not be desirable or practical to maintain comprehensive statistics on the collateral position of the loans made by production credit associations?

Mr. WILKINSON. The volatile nature of short- and intermediate-term lending makes it difficult, expensive, and impractical to maintain statistics on the collateral positions of PCA borrowers. We are also very doubtful about the value of these statistics in providing reliable indications about the economic conditions of our borrowers. In individual loan folders, collateral positions are usually maintained and controlled. Many operating loans are made where the collateral position is very dynamic, changing frequently during the year depending on the changes in the farmer's inventories, the buying and selling of inputs and products, and the diversity of the farming operation. All loans are secured by personal notes. Depending on the credit factors, some "gilt-edged" loans are secured only by the notes, and the pledge of specific assets (collateral) may not be necessary. On a loan-by-loan basis, the ratio of loan to specific collateral varies considerably depending on the overall credit worthiness of the borrower.

The FICB's perform annual credit reviews of each PCA, evaluating the quality of the loan portfolio. As part of this quality evaluation, the collateral position is considered, along with the other basic credit factors.

To maintain comprehensive statistics on a very fluid loan collateral position would, we believe, entail a major expenditure in time and effort for a disproportionately modest return.

TURNOVER RATE OF PROFESSIONALS

Mr. WHITTEN. In light of the hiring freeze, which has been in effect for some time now, has your average turnover rate of credit professionals been increasing?

Mr. WILKINSON. The average turnover rate for credit professionals in FCA is on the increase. In Calendar Year 1979, the turnover rate for these positions was 6.6 percent; this figure increased to 12.1 percent in 1980. Since the hiring freeze imposed on February 29, 1980, allowed us to fill one out of every two full-time permanent vacancies which occurred, we were able to replace only a few of the credit professionals who left. Currently, agencies are not permitted to make any new accessions, so any separations that occur must remain as vacancies. This has become a serious problem for FCA. In Calendar Year 1980, a total of six senior credit professionals left the Agency. So far in 1981, five more credit professionals have left. This trend substantially exceeds the turnover rate we experienced in the previous two years and will have a serious impact on the Agency's attempt to perform its supervisory role over the Farm Credit System. Although we had made employment offers to two credit professionals under the two-for-one provisions of the previous freeze, we were forced to cancel those offers when the freeze was backdated to November 5. We are now unable to fill any of these positions.

RETENTION OF QUALIFIED PROFESSIONALS

Mr. WHITTEN. Can you tell us of any difficulties you are having in retaining highly qualified professionals?

Mr. WILKINSON. We are experiencing serious difficulties in retaining highly qualified professionals in key positions throughout the Agency. Not including credit professionals, the average turnover for all other professionals in the agency (bank and association auditors, financial analysts, economists, etc.) was 15.4 percent in Calendar Year 1979 and increased to 17 percent in 1980. In 1980, three out of five deputy governor positions, an assistant deputy governor position, the general counsel position, and three division director positions experienced turnover. So far in 1981, the position of chief of staff to the senior deputy governor has become vacant. A couple of these positions have been filled through internal merit promotion actions, which resulted in vacancies in key positions in other parts of the Agency. Some vacancies are currently filled in an "acting" capacity with those employees attempting to handle two jobs at once.

There are several reasons for this high level of turnover. Four employees retired in 1980 and three more have retired in 1981 due to the changes in the Civil Service retirement provisions. Most of the other professionals who left the Agency accepted more lucrative positions in the private sector.

In almost all of these cases, a great deal of time and money has been spent in training and developing individuals to enable them to assume increased responsibilities and advance to higher-level

positions within the Agency. This is especially critical for the bank and association auditor positions, since this is a very specialized field which requires the adaptation of technical skills to Agency operations and procedures only through an extensive period of on-the-job orientation. Replacing employees who leave produces a loss of investment of time and money and results in a renewed need to train a successor. However, the situation as it exists today reflects a further deterioration since the hiring freeze does not allow us to find replacements. We had expected to realize some relief through employment offers to five professionals, but we were forced to rescind these offers when the hiring freeze contraints were recently tightened. All of this requires our current FCA staff to perform beyond regular requirements in the Agency, and results in the Agency being hard-pressed to continue to fulfill its mission effectively.

HIRING FREEZE

Mr. WHITTEN. Again, in light of the current freeze, once you train professional employees, what is to keep them from immediately leaving for more lucrative positions at commercial banks?

Mr. WILKINSON. In light of the generally more lucrative opportunities that many of our credit and finance professionals have in the private sector, we are forced to wage a constant battle to retain staff, often without having an arsenal of really effective weapons. The original Farm Credit Act Amendments bill of 1980 contained a number of personnel provisions, such as removing the agency from Federal civil service and classification statutes, which were designed to enhance the agency's competitive position vis-a-vis the private commercial banking sector. These provisions were intended to promote the agency's retention of highly qualified professionals, but were, unfortunately, excised from the final version of the 1980 amendments that became law last December.

In accordance with legal and regulatory authorities governing Federal personnel programs, FCA has utilized all existing flexibilities to promote retention of highly qualified personnel. Many of these flexibilities resulted from civil service reform initiatives. These include: FCA's implementation of the merit pay program one year ahead of the legal requirement; acquisition of delegated authority from OPM to waive the time-in-grade requirements for promotions for cases of superior-qualified employees and perceived hardship to the agency; development and implementation of an integrated performance appraisal-individual development program that provides for systematic advancement of employees to their full performance potentials; development and implementation of a systematic, comprehensive executive development program designed to provide broader training and management experiences to program directors and high level potential candidates; and development and implementation of a substantially modified incentive awards program that permits bonuses of from 6 to 15 percent of salary for sustained superior or outstanding performance.

In addition to these flexibilities, the Agency continues its practice of offering and encouraging substantial training for employees who are below the senior level, to the allow them to maximize their potentials in accordance with existing and projected position requirements. The Agency has devoted considerable attention to

enriching the work environment and employee social organizations. Ultimately, where possible and proper, the Agency encourages timely promotion of internal staff to the maximum performance level identified for each position and gives consideration to job enrichment when appropriate pre-conditions are identified.

COST OF SECURITIES SOLD

Mr. WHITTEN. What was the average interest cost for all consolidated bonds and discount notes sold during fiscal year 1980? How does this average cost compare with your experience for the past several years?

Mr. WILKINSON. Our records for average cost of securities sold in the market have been and are maintained on a calendar-year basis.

The Farm Credit System, like other market participants, paid historically high prices for debt instruments in 1980, surpassing 1979 peak costs. With your permission, I would like to insert in the record a table which depicts these costs by banking system and aggregates the discount note program for all 37 banks.

[The information follows:]

WEIGHTED AVERAGE COST TO BANKS

[In percent]

	FLB's	FICB's	BC's	Discount notes
Year:				
1980	11.93	12.39	12.78	13.02
1979	10.40	10.59	11.21	10.88
1978	8.35	8.24	8.08	7.93
1974	8.41	8.73	8.73	.....

The calendar years shown in this table are the four highest price periods in System history.

RATES FOR SHORT- AND INTERMEDIATE-TERM AND LONG-TERM LOANS

Mr. WHITTEN. In our current difficult economic environment, can you please describe the difference in borrowing rates for short and intermediate loans as opposed to long-term loans; i.e, has the proportion of long-term loans been increasing in the recent past?

Mr. WILKINSON. The demand for Federal land bank loans has remained strong in the past 2 years, while in the bank for cooperatives system there has been a slight shift in demand to seasonal money from term money. Federal intermediate credit bank loan volume this past year increased at about half the Federal land bank rate.

With your permission, we would like to insert in the record a table of loans outstanding for the three systems.

[The information follows:]

LOANS OUTSTANDING

[Dollars in thousands]

	Dec. 31, 1980	Dec. 31, 1979	Dec. 31, 1978
Short term:			
BC seasonal	$4,704,101	$3,602,187	$2,371,875

LOANS OUTSTANDING—Continued

[Dollars in thousands]

	Dec. 31, 1980	Dec. 31, 1979	Dec. 31, 1978
Percent increase	30	51	5
PCA	$20,160,313	$18,418,110	$15,112,201
Percent increase	9	22	11
Long term:			
BC term	$4,160,357	$3,777,786	$3,188,502
Percent increase	10	18	12
FLB	$38,137,543	$31,283,739	$25,626,462
Percent increase	22	22	15

YOUNG FARMERS

Mr. WHITTEN. The Committee is particularly interested in the Farm Credit Act Amendments which were signed into law on Christmas Eve of last year. One provision of this new authority allows Federal land banks to make loans for more than 85 percent of the appraised value of the farm real estate security when these loans are guaranteed by the Farmers Home Administration or some other Federal or state governmental unit. As the Committee understands this provision, the intention is to allow greater flexibility in permitting loans to be granted to young farmers who have low equity in their current real estate. Of course, we understand that they would still need to qualify for repayment capacity. My first question in this regard is, with today's high interest rates and land prices, is this the time to start a young person in farming?

Mr. WILKINSON. We view the current farming situation as a lean period in a series of favorable years. In other words, we have a rather optimistic outlook for agriculture in the next few years. We therefore feel our service to young farmers is proper now and needed for the future viability of agriculture.

LOANS TO BEGINNING FARMERS

Mr. WHITTEN. Second, do you have any information for the past several fiscal years of how many low equity beginning farmers you actually financed?

Mr. WILKINSON. In 1979, 9 percent of all FLB loans were made to borrowers with less the $100,000 in assests. However, information on low-equity, beginning farmers is not available.

The joint and subordinated loan programs between the Farm Credit System and FmHA have been highly successful in helping farmers, particularly young farmers. There were 2,047 joint closing loans in 1979 and these borrowers had an average age of 33. An additional 1,705 subordinated loans were closed during 1979. These programs offer farmers with low equity but adequate repayment capacity a means to purchase land. There are other alternatives for young farmers, including leasing rather than buying land. The FLB loans in excess of 85 percent would be used to replace these joint and subordinated lending activities, as FmHA switches out of these programs and into guarantees.

PROJECTIONS FOR YOUNG FARMER FINANCING

Mr. WHITTEN. Do you anticipate any great change in this number in the near future?

Mr. WILKINSON. We expect that there will be some increase in the number of young and low-equity farmers served by the System, but it is impossible to provide a reliable prediction about the exact magnitude of the increase.

It deserves to be noted, Mr. Chairman, that the Farm Credit Act Amendments of 1980 speak to this general question. The Act requires that district Farm Credit boards adopt policies providing coordinated production credit association and Federal land bank association programs for providing sound and constructive credit and related services to young, beginning and small farmers. Results of such programs would be included in the Farm Credit Administration's annual report to Congress. We hope to provide more detailed information about land bank young farmer programs in the next year's report and about PCA young borrowers by 1984.

LAND BANK-FARMERS HOME ADMINISTRATION COOPERATION

Mr. WHITTEN. We realize that these amendments were only just enacted, but do you have any preliminary indications that this provision to exceed 85 percent may be a cause of concern about cooperation between the Farm Credit System and the Farmers Home Administration?

Mr. WILKINSON. On the contrary, we hope and expect that allowing land banks to make loans which are guaranteed of up to 97 percent of the appraised value of the real estate security will lead to increased cooperation between FLB's and the Farmers Home Administration. This provision of the Act of 1980 was proposed because of a change in the direction of FmHA loan programs away from direct loans to loan guarantees, a change mandated by the Agricultural Credit Act of 1978. In order for the land banks to work effectively with the FmHA in serving farmers through the guarantee program, it was necessary to increase the amount which would be provided by the FLB's. In short, we expect much more FLB-FmHA cooperation in the future than there would have been if this provision was not included in the 1980 Act.

COMPETITIVE ADVANTAGES AND DISADVANTAGES

Mr. WHITTEN. Another provision of this legislation expands the authority of the banks for cooperatives—BC's—in connection with the export and import of agricultural and aquatic commodities and products and farm supplies. Under the 1971 Act, the banks could lend only to eligible domestic cooperatives. They were able to finance export transactions of borrower cooperatives only up to the domestic point of export. They were not authorized to provide the range of financial services which commercial banks are able to furnish to their borrowers, such as interim financing of foreign buyers of American agricultural commodities, as well as related financial assistance. In addition to this new authority to begin financing exports by cooperatives, the amendments also authorize the Farm Credit System to lend money for processing and marketing operations tied to farms. The Committee understands that cer-

tain groups and individuals raised strong objections to the new authorities for export and processing. Reportedly, they thought that these authorities would increase what they felt was an unfair competitive advantage to the Farm Credit System, in that Farm Credit institutions are free from taxes and certain regulations. What are your comments on this?

Mr. WILKINSON. Frankly, Mr. Chairman, I do not agree that System institutions enjoy an overall competitive advantage over other lenders. It is true that the Federal land banks and Federal intermediate credit bank are exempt from Federal income tax, but this is not true of the BC's or production credit associations. It is also true that System institutions have other advantages over commercial banks. But let me also point out that commercial banks have several very substantial competitive advantages over System institutions. Unlike commercial banks, System institutions must adhere to strict eligibility standards to ensure that they are agricultural lenders. Farm Credit banks are obliged to serve all agricultural areas at all times and under all economic conditions. Unlike commercial banks, System institutions are prohibited from offering a full range of banking services. Moreover, the banks and associations of the System are not deposit-taking institutions.

NEW AUTHORITY FOR EXPORT FINANCING

Mr. WHITTEN. Another facet of your new export authority is the feeling that farmers ought to be able to fully benefit from export sales by retaining ownership of their commodities as they go further into the marketing channels. One method of doing this is for the producer to market his goods abroad through his own cooperative, as now permitted under the new authorities. What are your thoughts on this?

Mr. WILKINSON. We believe that this new authority will benefit farmers and ranchers through a higher volume of direct export sales and greater return on these sales. Because of the growing dollar volume of commodity exports, farm income is becoming greatly influenced by world markets and the efficiency with which U.S. farm products are exported. Numerous large volume sales to foreign countries have demonstrated the direct economic benefits of exports to farmers when they are able to get a share of the profits.

For many farmers, the most efficient and profitable way to market farm products overseas is through their agricultural cooperatives. Although cooperatives directly exported barely 9 percent of all U.S. farm products exported in 1976, they have been gradually expanding the storage and elevator facilities required to handle increased commodity exports from the major U.S. ports. We believe that BC export financing will give farmers the opportunity for direct marketing on a broader spectrum and help build additional profit margins. The BC's cannot do this overnight, but they have already taken some initial steps in developing the capability for export financing. Moreover, the Farm Credit Administration is in the process of developing a regulatory framework for these new important authorities.

Mr. WHITTEN. Why was it necessary to seek the authority, which has been granted under the new amendments, for exemption from

State usury laws? Please describe the situation in those States where this was a particular problem.

Mr. WILKINSON. This provision reaffirms the consistent interpretation of the law under which System institutions have operated. This interpretation is that interest rates on loans made by Farm Credit System institutions are to be established exclusively under the provisions of Federal law and are not subject to State usury laws. It has been the position of the System, throughout its 64-year history, and the Farm Credit Administration, since long before the enactment of the 1980 Act, that provisions included in applicable legislation reaffirmed the intent of Congress that credit is to be provided to American agriculture on a continuing basis, and not impeded by State-imposed interest rate limitations. While the System's exempt status with regard to State usury laws had been acknowledged by Congress, some concern about this matter had arisen during periods of elevated interest rates. This was particularly true in the State of Arkansas where the penalty for violation of the State usury law is the forfeiture of principal as well as interest. The 1980 Act simply dispels any such questions by restating, in more explicit language, what has long been provided in Farm Credit law.

STATE TRUTH-IN-LENDING LAWS

Mr. WHITTEN. An additional authority that was requested but not enacted was a provision that Farm Credit System institutions should be exempt from State truth-in-lending laws. Why was it necessary to seek such an exemption?

Mr. WILKINSON. We believe that agricultural credit is primarily business financing, as opposed to consumer credit, and should not be subject to State statutory requirements which are designed for nonbusiness borrowers. Also, in view of the nature of System institutions, which are borrower-owned credit cooperatives, the abuses sought to be remedied by the Truth-in-lending legislation are not found in their operations. Finally, the expense and burden of complying with State Truth-in-Lending requirements are unwarranted in that they do not furnish commensurate benefits to applicants or borrowers who themselves are owners and users of their institutions. We regret that an exemption from State Truth-in-Lending laws for System institutions was not included in the 1980 amendments and hope that Congress will consider making this change in the future.

TAX STATUS

Mr. WHITTEN. Would you please provide for the record an explanation of differences in Federal income tax status between the Farm Credit institutions and commercial banks. Are there any provisions in your new authority that would change that status from what it had been in the past?

Mr. WILKINSON. No provision of Public Law 96–592 changes in any way the tax status of System institutions. I will, if I may, provide for the record a brief explanation of the differences of the tax status of System institutions.

[The information follows:]

Tax Status of System Institutions

FLBs, FLBAs, and FICBs—The Federal land banks and Federal land bank associations are exempt from Federal income tax by reason of Section 502(c)(3) of the Internal Revenue Code and Section 1.21 of the Farm Credit Act; Federal intermediate credit banks are exempt pursuant to Section 502(c)(3) of the Code and Section 2.8 of the Farm Credit Act. The exemption of these institutions reflects the judgment of Congress that, in view of their unique organizational structure, the severe limitations upon their ability to attract equity capital and the prohibition of acceptance of deposits, tax exemption was necessary to assure that they could perform their assigned task of providing dependable credit to agriculture at reasonable costs in all parts of the country and under all types of economic conditions.

PCAs—Production credit associations, the ultimate lenders in the intermediate credit bank system, are, for the most part, subject to the same tax provisions that are applicable to corporations. The two major differences are:

1. Some of the PCAs operate as cooperatives under the provisions of Subchapter T of the Internal Revenue Code. As would be the case with any other corporation which elected to operate on a cooperative basis, these PCAs are entitled to deduct patronage dividends that are payable to their borrower-patrons on the basis of the volume of business done, in the form of cash, or partly cash (at least 20 percent), and partly in the form of "qualified written notices of allocation." This permits such PCAs to eliminate (or substantially reduce) income tax at the corporate level. However, the full amount deducted by the PCA must be taken into income by the borrower since such a refund represents in essence a reduction in the borrower's interest payment which he has previously deducted.

2. Section 2.14 of the Farm Credit Act provides that a PCA is required each year to add to its reserve for bad debts an amount equal to one-half of 1 percent of loans outstanding until such reserves exceed 3½ percent of loans outstanding. Further additions to bad debt reserve are permitted but not required. The legislative history of this provision, which was first enacted in 1961, makes it clear that the mandatory additions to bad debt reserves by a PCA should be accepted as reasonable additions for Federal income tax purposes. That legislative history reflects a realization on the part of the Congress that PCAs are different from other taxpayers and that it was a desirable legislative goal to provide some certainty with respect to the amount that might be reasonably added each year to their bad debt reserves. Referring to extensive litigation involving the reasonableness of the reserves for PCAs, the report of the Senate Committee on Agriculture and Forestry stated:

"Inasmuch as such court decisions now have delineated what are deemed reasonable bad debt reserves for the Production Credit Associations, it is considered that the Associations should not have to continue to resort to court action to sustain deductions made for bad debt reserve. . . . In the opinion of the committee the amount of bad debt reserves for Production Credit Associations should not be left entirely for administrative determination. . . . It [this amendment] of course need not be viewed as a precedent for other institutions which are not comparable either in their lending or their court experience as to what are reasonable bad debt reserves."

BCs—The Internal Revenue Code contains some provisions used by a corporation to compute taxable income which apply to commercial banks and not to banks for cooperatives. Likewise, there are some provisions of the code which apply to banks for cooperatives and not to commercial banks.

Subchapter H of the Code, entitled "Banking Institutions," applies to commercial banks but not banks for cooperatives because they do not accept deposits and therefore are not considered "banks" as that term is defined. Banks for cooperatives compute their taxable income under Subchapter T of the Code, entitled "Cooperatives and their Patrons." Under this section, a BC is entitled to deduct, in determining its taxable income, amounts paid out or allocated to its patrons which meet the definition of a patronage dividend set out in the Code.

Other differences in taxation between BCs and commercial banks are:

1. Commercial banks treat gains or losses on investment securities as ordinary income and losses whereas the BCs are required to treat such gains and losses as capital gains and losses. This required treatment for BCs is not advantageous since capital losses must be offset against capital gains which hardly ever occur in the BC system whereas commercial banks can offset these losses against operating income for tax purposes.

2. Section H provides special formula rules for determining reserves for losses on loans made by commercial banks. These provisions are generally more favorable than the actual experience provision of Section 166(c) for deductions for a reserve for bad debts.

3. The due date of the income tax return for a bank for cooperatives is the 15th day of the 9th month following the close of the taxable year. The due date for a commercial bank is the 15th day of the 3rd month following the close of the taxable year.

TELEPHONE COOPERATIVES

Mr. WHITTEN. The Committee understands that the Farm Credit Administration has always had the authority, through the Banks for Cooperatives, to make loans to telephone cooperatives. Can you please provide for the record the number and funding levels of such loans you have made in the past several years?

Mr. WILKINSON. I will gladly do so. On December 31, 1980, there were six loans outstanding to rural telephone cooperatives in the amount of $13.6 million; at December 31, 1979, there were six such loans outstanding for $4.7 million; and at December 31, 1978, there were five such loans for $1.6 million. This represented, respectively, 0.07, 0.03, and 0.01 percent of total loans outstanding for the banks for cooperatives system.

GASOHOL

Mr. WHITTEN. In addition, we understand that there are a number of ways in which the credit system could participate in the support of a gasohol program. Please describe in some detail any loans which may have been granted for this purpose in the past several years.

Mr. WILKINSON. As far as we know, the System has not as yet made any gasohol loans. However, there have been a number of inquiries made through the banks and associations regarding gasohol production. Only one or two of these inquiries resulted in loan requests. These requests had to be declined because the applicants, who were not farmers, ranchers, producers or harvesters of aquatic products, or farmer cooperatives, were ineligible for Farm Credit System loans.

Based on the interest shown in gasohol production, we expect future activity in this area.

BONA FIDE FARMERS

Mr. WHITTEN. Again, with regard to the recently enacted amendments, there has been some concern expressed about the definition of bona fide farmers. The original legislation left the definition of what a bona fide farmer would be to the Farm Credit Administration. There has been concern that a number of individuals who are interested only in investment income or only in "recreational" farming are qualifying for Farm Credit Administration loans, or are passing judgment on who does receive an FCA loan. Is there anything in the newly enacted amendments that gives further guidance as to the definition of a bona fide farmer? This is of interest due to the reduction in the so-called "voting control requirement" to 60 percent.

Mr. WILKINSON. The Farm Credit Act Amendments of 1980 provide no further guidance to FCA in regard to the definition of "bona fide farmer." Part of the reason for this may be that the present, somewhat broad, definition of "farmer" is considered necessary if the System is to serve all segments of American agriculture. At present, the Agency defines a farmer or rancher as ". . . a

person owning agricultural land or engaged in the production of agricultural products, . . ." This definition covers a broad spectrum, including commercial farm businesses, absentee landlords, tenant farmers and part-time farmers. We believe the System must serve this broad spectrum if it is to do the job of serving American agriculture.

The GAO report you refer to does indicate that a relatively small number of System loans were made for "recreational" farming and for other dubious purposes. However, we believe that what is necessary in cases such as these is to apply current regulations more effectively rather than to create a new regulatory definition of "farmer."

Under the new legislation, cooperatives will still be required to document that a percentage of their members are, by FCA's definition, "farmers, ranchers, or aquatic producers." A 60 percent requirement has been established for rural electric, utility, service and certain types of local supply co-ops. All other cooperatives will have to satisfy an 80 percent requirement to qualify for BC financing. We believe that no change in the definition of "farmer" is necessary to ensure that the BC's provide financing only to farmer cooperatives that Congress intended the BC's to serve in the new Act.

STAFFING INCREASE

Mr. WHITTEN. For fiscal year 1982, you are requesting funds for 17 additional full-time, permanent positions. However, your Explanatory Notes do not explain the need for this requested increase: no workload statistics, no performance indicators, and so forth. In future years, we would hope that your Explanatory Notes would provide this sort of information. For now, we will give you the opportunity to insert, at this point in the record, your explanation of why you believe these increases are needed. Please provide sufficient information to indicate the productivity of your current work force, and the increase in your anticipated workload during 1982 which requires additional staffing.

Mr. WILKINSON. Last year, this committee approved a fiscal year 1981 FCA budget containing a complement of 284 positions. Due to employment restrictions imposed by the Office of Management and Budget, the Agency was required to hold 17 positions unfilled. This resulted in 267 permanent positions authorized as the fiscal year 1981 end-of-year ceiling. In our fiscal year 1980 budget request, FCA presented to this committee a request for 12 new positions. At that time, our Explanatory Notes to the fiscal year 1980 budget included justifications for four credit examiners and eight positions for a credit examiner and a credit officer training program. These justifications included workload statistics of the type you are requesting. The need for these positions is still critical. The fiscal year 1980 position justifications which are still valid today will be submitted for the record.

The other five positions were reduced from the Agency's personnel ceiling in fiscal year 1980 by an OMB mandated reduction. They have carried this ceiling reduction through to the fiscal year 1981 personnel ceiling.

We have viewed the employment freeze actions of OMB to be temporary and not permanent. Since the Congress has previously

approved budget limitations containing these positions, we are asking for the freedom to fund and fill these jobs in fiscal year 1982 should the personnel ceilings and freeze be lifted. The 17 positions requested for fiscal year 1982 are required in order for the Agency to maintain its operations in the face of a projected 20 percent annual loan growth and new legislative authorities granted in the Farm Credit Act Amendments of 1980.

[Additional information follows:]

POSITION JUSTIFICATIONS, FISCAL YEAR 1980

FOUR CREDIT EXAMINERS

Total System loan volume grew 15.2 percent in 1976 and 13.6 percent in 1977. Projected annual growth for 1979 and 1980 is 17 percent. In the face of this significant growth in loan volume, FCA must take necessary steps to assure the ability to carry out a highly qualified credit examination program, and thus comply with statutory requirements. To some extent, staff resources have coped with growth through better planned examinations and concentration in areas of greatest risk, however, some additional number of credit professionals must be hired just to keep pace with the sheer increase in volume, numbers, and complexity of loans.

It is also important to take stock of the environment within which credit examiners work because it reflects on the importance and complexity of the job. Agriculture is an industry marked by rapid and major shifts. Agricultural programs, foreign trade policies, prices and weather are but a few of the important factors that impact heavily on farmer's income and their repayment capacity. Financing agricultural enterprises requires people with broad experience and seasoned judgment to ascertain and analyze the many and often obscure factors that affect the risk involved in making loans. Credit examiners must have these same qualities to be effective.

In 1977, there was an average of $2.0 billion of System loans outstanding for each credit examiner. Without additional staff, by 1980 this amount will rise to $2.8 billion per credit examiner. The modest number of additional credit examiners requested is essential if FCA is to maintain acceptable quality of credit examinations for the increasing volume and number of loans.

EIGHT TRAINING PROGRAM PARTICIPANTS

The purpose of this training process is to develop a pool of qualified credit professionals who would be employed in the Offices of Examination and Supervision after the training period.

The Farm Credit System has experienced rapid and continuous growth in its lending operations. The demands this growth places on examination and supervisory staff resources make it imperative for the Agency to develop a recruitment and training program capable of producing qualified credit officers in sufficient numbers if it is to effectively administer its supervisory responsibilities.

It has become increasingly difficult for the Agency to attract qualified individuals with prior System experience, as evidenced by the continued lack of success in recruiting efforts. This is because the Agency is becoming less competitive with the other segments of the Farm Credit System from a salary and employee benefits standpoint and because of the high cost of living in the Washington metropolitan area relative to district bank and association locations.

The Agency faces a critical staffing problem. The demand on staff resources is increasing at a time when the Agency's ability to build staff resources is diminishing. It is this current dilemma that gives rise to proposed program based on a "grow your own" approach to staffing.

Historically, turnover in the professional credit jobs has averaged 18 percent annually. The Agency training program will be supplemental to other recruiting efforts and will contribute significantly to FCA's ability to fill the 8 to 10 vacancies which occur annually.

A participant in the program will be exposed to the lending function at various levels of the System, as well as the different segments within FCA with responsibilities for supervising the System.

In addition to practical experience, a program participant will be given formal System-related technical training in areas of finance, accounting, cooperative principles, management, credit, and human relations.

Mr. WHITTEN. I will yield now to Mr. Myers.

Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman, and Governor, and members of the board, and your staff. We appreciate your participation here today and telling this committee of what your work is.

ADMINISTRATIVE LIMITATION

Our relationship with you is somewhat strange compared to some others that come in, who depend on us for their funds. It is refreshing in our system when you do not come to us for your funds.

I think, however, we do have some review, do we not? It is a quasi official sort of relationship.

Mr. WILKINSON. Yes.

Mr. Redmer, what is the proper term as we refer to our budget being part of the Executive Branch's budget?

Mr. REDMER. Mr. Myers, an administrative limitation on current year obligations of the Farm Credit Administration is included annually in the Agricultural Appropriations Act.

Mr. MYERS. It was done just a few years ago, however, to do just what the governor was speaking about a moment ago—to avoid this crunch or competitiveness at any certain time for only a limited number of dollars that were available to invest, as I recall. Is that right? You were brought in under the umbrella so that the treasury could more evenly distribute the borrowing through the year? Was that the purpose of it?

Mr. WILKINSON. I think the basic reason that we have this relationship with you is so that you can continue to exert a public interest over a Farm Credit System that is farmer-owned and privately financed. And yet, Mr. Myers, as you so well know, we are dependent upon the public investor for his participation in the sale of our securities.

I look upon this committee, then, as having the dual concern: Is this system, established by Congress many years ago, serving the farmer and rancher first; and, secondly, as an entity of our Government, is it protecting the public's interest as well?

The coordination with Treasury is, perhaps, part of your interest, but this we are doing on a voluntary basis and we are working out that relationship most effectively.

Mr. MYERS. I am sorry our new members are not here to hear your testimony because each year we have to be refreshed—those of us who have been here for a while—on exactly our responsibility and why you are here.

FEDERAL FINANCE BANK

You mentioned a moment ago the Federal Finance Bank. Could you just compare your borrowing authority and your relationship with the Treasury to theirs?

Mr. WILKINSON. Would you mind if I asked another individual to speak?

Mr. MYERS. Not at all.

Mr. WILKINSON. We have a general counsel who has had experience with the Comptroller of the Currency and several others—Mr.

Medero—and I think it would be most helpful for him to express it in his way to you, Mr. Myers.

Mr. MYERS. You might include also who are the borrowers, that you know of, that come into the Federal Finance Bank.

Mr. MEDERO. Generally, the Federal Finance Bank is a structure which directly controls the financing of certain Agencies. In other words, in order for an Agency to get its funds, it must access through the Federal Finance Bank.

That is contrasted with the Farm Credit Administration which must coordinate with the Treasury in order to prevent any disruption in the public money markets. However, FCA is not restricted in terms of the amount it can get and the timing at which it can get it, other than on a cooperative basis. FCA pretty much has the authority, within its own jurisdiction, to regulate its access and its demand for funds.

Mr. MYERS. Who chartered the Federal Finance Bank? How was it chartered?

Mr. MEDERO. The Federal Finance Bank is chartered by legislation from Congress and is set up as a structure within the Treasury Department.

Mr. MYERS. Where do the funds come from that the Federal Finance Bank lends out to these institutions?

Mr. MEDERO. It comes through the market, but it comes through the Treasury's access to the market. Rather than the individual Agency going into the market, the Agency goes into the market under the guise of the Treasury control.

Mr. MYERS. If my memory serves me correctly, insured loans, or so-called insured loans that we provide from time to time that Agencies may use, must go to the Federal Finance Bank.

Mr. MEDERO. That is correct.

GUARANTEED LOANS

Mr. MYERS. Guaranteed loans do not have to go through that bank. Am I correct on this? Are you familiar enough with the insured versus guaranteed loan?

Mr. MEDERO. The guaranteed loan is a different creature from the insured loan. The guaranteed loan I do not believe involves any raising of money or any raising of capital. It merely is a program that Congress has enacted which would give a contingency on the loan to be able to go and get access to the market.

Mr. MYERS. With the guaranteed loans, there is no access to funds?

Mr. MEDERO. That is correct.

Mr. MYERS. They are guaranteed wherever the borrower seeks loans. They are on the open market usually, but they are borrowed on a guaranteed basis. Is that not correct?

Mr. MEDERO. That is correct.

Mr. MYERS. And insured loans or subsidized interest guaranteed—there is no subsidized interest.

Mr. MEDERO. That is correct. With a guaranteed loan, for example, a borrower could probably go to a number of different sources in order to get the money itself for the loan, but the Government would guarantee the repayment of those funds.

Mr. MYERS. Do any of the lending institutions affiliated with the Farm Credit Administration participate in insured loans?

Mr. MEDERO. They do not make insured loans directly.

SOURCE OF FUNDS

Mr. MYERS. Borrowers such as the Production Credit Association, which traditionally go to the Federal intermediate credit banks—their primary source is there, but they are not completely precluded from going out on the open market and borrowing, are they?

Mr. MEDERO. The production credit associations get their funds from the Federal Intermediate Credit Bank, which accesses the public money markets through the Farm Credit System. All of the monies flow to the PCA's down from the System itself rather than the PCA being able to directly access the market.

Our securities are system-wide consolidated securities—term securities that we are selling now—and those obligations represent joint and several obligations of all of the institutions of our system.

So, we have a centralized money market access in our Fiscal Agency and our fiscal agent which is located in New York. This money market access is the device that the whole System uses and is required to use in order to access the public money markets.

Mr. MYERS. Has that changed in the last 20 years? It seems like I loaned money to the local production credit association. I thought that years ago I did. Maybe I did not.

Mr. MEDERO. I do not believe that has changed, but the structure of the Fiscal Agency has evolved over the last 20 years to the point that it is the central source for accessing public money markets for the entire System.

Mr. MYERS. Then I guess I am mistaken about my recollection of lending the local production credit association money. I thought on a short-term basis I had.

Mr. MEDERO. The banks themselves and the production credit associations and the land bank associations do not have any deposit-taking capability. They do not have any parallel with commercial banks at all in that respect. All of the funds that come down have to come from the money markets, and so all of their funds have a cost attached to them as opposed to commercial banks which, of course, as you know, until recently have relied substantially on different kinds of deposits including time deposits.

Mr. MYERS. When I go home sometime I am going to look it up, as to who was violating the law. I am not sure; maybe I was doing something I should not have been doing. [Laughter.]

Mr. WILKINSON. You may be recalling that up until, I think, three and a half to four years ago, one was able to purchase a Federal land bank bond or a Federal intermediate credit bank bond, but as Mr. Medero indicates, it is now the Farm Credit consolidated bond, one instrument used for the entire system.

Mr. MYERS. With the exception of the Federal Finance Bank, you have no affiliation with it.

Mr. WILKINSON. We have no affiliation with the Federal Financing Bank.

Mr. MYERS. So when any statements are made about, "We are going to slow down the borrowing authority of the Rural Electrifi-

cation Administration," for example, it has really no impact as far as our budgetary restraints are concerned. There is no way that is really going to stop or reduce our national budget. It may have some impact, of course, in an indirect way on inflation if you slow down the amount of money in circulation, but they are actually off-budget items, are they not?

Mr. WILKINSON. You mentioned the Rural Electrification Administration. You have two types or more of loans there.

Mr. MYERS. The insured loan.

Mr. WILKINSON. The insured loan—yes—and you have the subsidized loan, and the same thing in the Farmers Home Administration. But the answer is, you are correct, at least in our case, we are not part of the whole budgetary process, per se. You are correct in that.

DEMAND FOR LOANS

Mr. MYERS. You identified early in your testimony that high costs of production and high interest rates have caused a demand on the farmer and are making real problems. What has happened to demand for loans today because of the higher interest rates and the loss of net income to the farmer? Is there any change in the demand for loans today?

Mr. WILKINSON. There certainly is. The total demand last year on both sides—short-term and long-term—was off because of the effort to restrain extension of credit by the Administration, especially through the Federal Reserve and the commercial banks, as well as the Farm Credit System and its program.

The high interest cost is a very natural restraint to business-type farmers who are not going to be extending or securing credit when they can postpone it and hope that they will be able to buy that tractor with a 10-percent loan instead of a 15-percent loan.

The System, as I indicated earlier, Mr. Myers, did have a higher growth rate last year than was normal but only because of the shifting of the credit. Your commercial banks, as you so well know, did not have the deposits coming into them. They were going to the higher-paying money market certificates. PCA's picked up some of that business. As a result, the Farm Credit System did have an increased share.

However, there has not been that much change in the long picture. We will and have been increasing at about 15 to 17 percent growth rate per year in the Farm Credit System. It was a little higher than that a year or so ago, but that is our normal trend.

COMPETITION

Mr. MYERS. You say there is no competition today, and you try to avoid being in a competitive position or posture with the Treasury. However, the Federal Financing Bank, since they are out in the same market, and they are after the same dollar that you are, does that coordinate also as far as they are concerned?

Mr. WILKINSON. Yes.

Mr. MYERS. Theirs is coordinated through Treasury. They are not direct obligations to Treasury and I guess not subsidized by Treasury in their obligations, are they?

Mr. WILKINSON. Yes, they are.

Mr. MYERS. They are subsidized in interest—the Federal Financing Bank?

Mr. FREDRICKSON. The Federal Financing Bank obtains all of its funds from the Treasury. Those are all in the first instance Treasury bonds.

Mr. MYERS. But borrowed rather than appropriated Treasury bonds.

Mr. FREDRICKSON. That is correct.

Mr. MYERS. But does Treasury subsidize interest rates that they charge, in return, to the Federal Financing Bank?

Mr. FREDRICKSON. No, they do not.

Mr. MYERS. They have to recover the cost of money?

Mr. FREDRICKSON. Yes.

Mr. WILKINSON. And to your question regarding coordination, when we would coordinate with the Treasury, that, in turn, would take care of the FFB—Federal Finance Bank. It would be part of the Treasury's coordination.

Mr. MYERS. That used to be part of the problem several years ago, I know. We discussed that.

My last question is, are there any appropriated funds whatsoever available to any of your institutions—the Federal land banks, or cooperatives, or the Federal intermediate credit banks?

Mr. WILKINSON. No, sir. There are no appropriated funds in any part of the Farm Credit Administration or the Farm Credit System. The cost of our Agency of Government—the Farm Credit Administration—is allocated back to the Farm Credit System, so there are no tax dollars involved.

Mr. MYERS. It is an assessment for every expense?

Mr. WILKINSON. That is correct, sir.

Mr. MYERS. Thank you.

Mr. WILKINSON. Thank you.

Mr. TRAXLER [acting chairman]. I would like to recognize the newest, most concerned, and most punctual member of this subcommittee, Mr. Watkins from Oklahoma.

Mr. WATKINS. Thank you, Mr. Chairman. Thank you very much. I wish you had said something about "most conservative member."

Mr. TRAXLER. No, I did not mention that word. Do you want me to fit it into the next introduction?

Mr. WATKINS. Well, perhaps. [Laughter.]

I have been on the Banking and Finance Committee for the last four years. I know a lot of the FHA programs go through that Committee.

Mr. WILKINSON. Yes.

RURAL HOME LOANS

Mr. WATKINS. I noticed you too work with rural home loans. Is this under the farm program that you handle?

Mr. WILKINSON. In 1971, Mr. Watkins, the Congress granted to the Farm Credit System the opportunity to provide funding for rural home loans as an extension of its funding program for long-term farm purchases.

Mr. WATKINS. But it is very rarely done, I think. I know in my area of the country we have a housing program for rural America.

I was a home builder and land developer before I came to the Congress. That was in between the time I was in agriculture and here. We do not have a home loan program like the Federal Housing Administration in rural America. HUD takes care of mainly urban areas. We have a very, very limited HUD program. FmHA, however, is utilized a great deal. But they do run out of direct loan money within the first quarter usually.

To what degree could your program expand in order to provide housing in rural America.

Mr. WILKINSON. I would first indicate that we are carefully and properly restricted as to where we may make these home loans. They are not to be part of the urban community. They are for the rural dweller and the rural community which may not be a——

Mr. WATKINS. What is your definition of "urban"?

Mr. WILKINSON. Urban—2,500.

Mr. WATKINS. This is the gap we are talking about primarily. Generally speaking, the Federal Government has defined urban as being anything above 50,000. Anything below is considered rural. I do not have any community above 22,000 or 23,000 in my entire district. That is a tremendous gap. You have to go several hundred miles to try to get FHA/HUD housing in any of the rural areas in my district. This is discrimination against the people who live in rural America, as such.

Mr. WILKINSON. Mr. Watkins, I think it would be helpful for Mr. Fredrickson, who has developed this part of the Act of 1971 authority, to give you the background on the rural home program. May I ask him to do that?

Mr. WATKINS. It would be fine with me if it is all right with the chairman.

Mr. TRAXLER. Certainly.

LIMITS OF RURAL HOUSING AUTHORITY

Mr. FREDRICKSON. The authority that the Congress provided in 1971 for rural housing provided a rather narrow and pretty carefully circumscribed authority. First of all it is limited to a 2,500 or less population area that you already mentioned and, in addition to that, it is restricted to moderately-priced dwellings and, finally, the authority limits the total amount of housing loans outstanding by any of the institutions.

Mr. WATKINS. Could you clarify "moderately-priced housing"?

Mr. FREDRICKSON. That is left to our determination. At the present time, we use a nationwide standard, which is a somewhat questionable way, perhaps, in some respects, to do it. We will consider any dwelling—the house and the property on which it is located—whose value is below $75,000, to be declared "moderately priced." That would be considered low in some areas, perhaps, and certainly high in others, but we use that as a nationwide standard.

The additional limitation placed by the Congress on this program is that no more than 15 percent of the total loans outstanding by any of the institutions can be in rural home loans.

At the present time, the total rural housing loans outstanding for the land bank system is about $2.1 or $2.2 billion. That compares with a total land bank outstanding of some $38 or $39 billion.

The percentage has been increasing. It has been a very rapidly growing program.

Mr. WATKINS. Would you be open to help fill a bigger void in this area?

Mr. FREDRICKSON. Congressman, in all fairness, I think I would have to say that there would be a considerable degree of concern within the Farm Credit System over any proposals to expand that program.

Mr. WATKINS. In all respect to you people, I have been trying to do battle on the Housing Subcommittee of the Banking and Finance Committee for the people in rural America. Let me tell you folks, if there has ever been a group of people discriminated against, it is the rural people. We cannot even get housing in rural America for our people because Farm Home is the only one who mainly serves them and that is usually in a moderate to low income house. Savings and loans do not want to go out to rural areas. HUD and FHA do not want to go out there. So who is going to go out there and help us?

RELATIONSHIP WITH FARMERS HOME ADMINISTRATION

Let me move on. Do you do anything with Farmers Home, or do they go separate completely?

Mr. WILKINSON. Farmers Home is a separate institution.

If I could just say this—we were speaking of a guarantee program. Farmers Home, if it so chooses, could have a relationship with one of our institutions, as they do at the local level, guaranteeing a loan, but the funding would come from a Federal land bank association, for example.

Mr. WATKINS. Guaranteeing a land or a farm loan or anything like that?

Mr. WILKINSON. Yes, sir. It would be guaranteeing a long-term farm loan for possibly a beginning farmer or a young farmer. We do have that relationship at the local level, and we have agreements here in Washington.

Mr. WATKINS. That is what I was trying to see, if there was any financing indirectly, other than just an agreement or relationship. That way you did not pick up any of their tab anywhere along the way.

IMPACT OF BUDGET REDUCTIONS

Since credit has come to be a tremendous problem with the drought situation, if the axe does fall on credit programs as Mr. Stockman has indicated, what would be the impact on your Agency? I know he has talked about the Federal Financing Bank. But I do not know if he has said anything about your organization or not. He has also said the axe is going to fall on the Farmers Home Administration loans.

What kind of capability do you have, or what kind of burden would this be placing on your organization?

Mr. WILKINSON. I think the obligation, Mr. Watkins, would be for the institutions of the Farm Credit System, the Federal land bank associations, and the PCA's to evaluate, on an individual basis, those who are no longer able to borrow from the Farm Credit Administration. If a person can evidence that he is capable of

repaying his loan, and he is an eligible farmer or rancher, he would be able to secure funding from one of our Farm Credit System institutions.

However, the System, since it has no Government subsidy, does not normally get itself involved in anything other than sound credit lending in a businesslike manner.

Mr. WATKINS. It seems to me the Reagan administration is going to take a tremendous meataxe to the rural programs—agriculture as well as other rural programs. I am deeply disturbed and distressed about how we can take a cut in any of these programs. We are really second-class citizens as far as the number of dollars goes to assist about one third of the people in this country, when you consider housing, power, water, sewer programs, and all the other things.

Mr. WILKINSON. We might suggest that it be considered whether the Farmers Home Administration is truly a supplemental credit institution, not an ongoing, continuing source of credit for those who could have secured credit elsewhere. There has been that tendency, possibly, especially in some of the recent disaster areas or economic emergency areas where there was a large group of farmers who were declared eligible but did have the assets to have secure credit from other sources, such as Farm Credit or a commercial bank.

That may be an area that you could explore, Mr. Watkins.

Mr. WATKINS. There have been some abuses in that program, I know.

I am very familiar with Farmers Home. I did not know you were picking up part of the tab on some of these programs because they do help young farmers and they do provide rural homes.

Mr. WILKINSON. Yes.

BANKS FOR COOPERATIVES

Mr. WATKINS. The banks for cooperatives—could you discuss that briefly, if the chairman will allow me the time?

Mr. WILKINSON. I will be happy to.

Let me first say to you that there are three parts of the Farm Credit System. We have been talking about the Federal land bank system which is the one which provides the long-term real estate credit. There is the Federal intermediate credit bank system which provides short-term and intermediate-term credit through its production credit associations, which you are familiar with.

Mr. WATKINS. Right.

Mr. WILKINSON. There is a third arm, which has something like $10 billion outstanding, called the banks for cooperatives system. These banks deal directly with their owners, that is, the farmer cooperatives of this Nation. The cooperatives are the stockholders. They borrow directly from these banks for cooperatives. They invest stock in it. They capitalize it. The banks for cooperatives secure money from exactly the same source that we have been describing, from the consolidated funding system of the Farm Credit institutions.

What more should we add here, Mr. Fredrickson?

Or do you have a more specific question, Mr. Watkins?

Mr. WATKINS. Probably a little later on. I am interested in expanding in my part of the country where there is a tremendous need.

Mr. WILKINSON. In Oklahoma, there are many cooperatives that are borrowers of the Farm Credit System. Union Equity, for example, is your largest cooperative and is one that is very interested, incidentally, in the new authority that Congress granted in export financing. Union Equity is interested and is a major stockholder in the bank for cooperatives at Wichita. Oklahoma is part of our Wichita Farm Credit District.

Mr. WATKINS. Have you ever formed cooperatives for particular commodities?

Mr. WILKINSON. As lenders, we are careful that we not actually form the cooperatives, but we have people, and we work very closely with the Farmers Cooperative Service, an agency within the U.S. Department of Agriculture, in helping farmers organize cooperatives, sometimes for very special purposes or special commodities.

We will work with those cooperatives as they become owners of their bank for cooperatives and will extend credit to them.

Mr. WATKINS. I would like to visit with some of the people about this.

Mr. Chairman, you have been very patient and kind. You were very flowery in my introduction, and I do not want to belabor this any longer because you will start using a lot of other adjectives to describe me. I do not want that to happen.

Mr. TRAXLER. I would not call the gentleman anything that he does not want to be called, but I would say that, after carefully listening to your line of questioning and comments, I would say that you begin to sound more like an Oklahoma populist. [Laughter.]

I would like to welcome Mrs. Smith, the newest ranking member on the subcommittee.

We are delighted to have you, Mrs. Smith.

Mrs. SMITH. Thank you, Mr. Chairman.

I want to apologize for being late. I rushed down after the last vote to make a speech before the National Bean Growers Council. My constituent is being elected national president today, and I wanted to be there.

Incidentally, the bean growers are one segment of agriculture that are getting along fine. We are doubling our exports next year, we have got a good crop and a good price, and we exported $204 million worth of beans this year.

I have three quick questions. I know the hour is late, and I am sorry to have missed the discussion, and I will be reading the testimony very carefully, Governor Wilkinson.

GRASSROOTS FARMING

You know, we are going to be watching—both the people at home and the Congress—the FCA very closely to see how the new lending authority under the new Farm Credit Act Amendments will be handled. Will you continue to give top priority to grassroots farming and ranching in your lending policy?

Mr. WILKINSON. Yes, Mrs. Smith. The mandate of Congress is to provide adequate and constructive credit to farmers and ranchers. Then, more recently, you have included aquatic producers in that mandate. Of course, we should include their cooperatives. We will always have their needs foremost in our minds.

As we work with the new authorities, we will make sure that we protect the interests of the borrower, the farmer/rancher, and the investor. We did talk about where system funds come from and the importance of retaining a scandal-free image for the Farm Credit securities as they are sold on the public money market.

Mrs. SMITH. I will be watching your record very carefully.

NEW AUTHORITY FOR PROCESSING AND MARKETING

The authority for off-farm processing and marketing loans is going to give you the power to make loans in some gray areas regarding their relationship with agricultural production. Will you be scrutinizing this type of loan very carefully?

Mr. WILKINSON. Yes. And I am pleased that you raised that question because we have not mentioned the processing and marketing authority today.

We would first remember, Mrs. Smith, that the processing and marketing provisions of the Farm Credit Act Amendments of 1980 do not authorize a new type of borrower. We are dealing with a farmer and a rancher, and we are helping that farmer and rancher integrate his or her traditional farm operation into a marketing and processing area as long as 20 percent—the law says—of the throughput or raw product going through that is his or her own, and the rest of it is coming from other eligible borrowers.

The 1980 Act permits several farmers to get together, use their own cooperative credit system, and finance processing and marketing activities which provide additional opportunities to secure increased profit in the farming situation.

In answer to your question, we will watch processing and marketing lending very carefully to make sure it is not misused and it is totally of benefit to the farmer and rancher.

Mrs. SMITH. That is very reassuring.

COOPERATION WITH COMMERCIAL BANKS

Now, one final question. Some of the small commercial banks in my area have been much concerned that they have not had access to your discount window. Will you be making access to this discount window more available to our small commercial bankers in the future?

Mr. WILKINSON. The answer, again, is yes. The Farm Credit Act Amendments of 1980 provide a mandate—which had not been contained in any previous legislation. The legislation mandates that the Federal intermediate credit banks provide access to rural banks to their discount facility so long as they can satisfy eligibility criteria which were carefully determined by Congress.

Is the bank serving agriculture? Will it stay with agriculture year in and year out? We are right now in the process of writing some very difficult regulations which will be studied carefully by

the rural bankers as well as by the American Bankers Association and by the Farm Credit System.

The answer, again, is yes, we will watch that, to insure that the FICB's service those bankers in accordance with the new authority Congress granted us last year.

Mrs. SMITH. I appreciate those answers, Governor Wilkinson. That is all I have, Mr. Chairman.

Mr. TRAXLER. Mr. Robinson has some questions which he would like answered for the record.

[The questions and responses follow:]

Mr. ROBINSON. Governor Wilkinson, in view of the fact that total farm debt rose another $23 billion during 1980 to $180.5 billion at year end, I have to repeat the question I asked you last year; how is the American farmer going to repay this staggering indebtedness in light of the fact that prices received for farm products rose only slightly last year, and are not predicted to do much better this year due to the drought, increasing production costs, and continued high interest rates?

RESPONSE. Prices received by producers are expected to increase significantly over those in 1980—in large part due to last year's drought. This should help many pay down their debt. But, of course, it will be of little help to those most adversely affected by the drought. In general, increasing asset values in agriculture allow producers to refinance debts during periods of poor farm earnings, thus carrying them through to periods of higher earnings. As you know, agricultural producers are accustomed to having more lean years than good ones and recent entrants with low equity are in a very vulnerable position.

Mr. ROBINSON. Governor Wilkinson, most financing of processing and marketing activity is done through the Banks for Cooperatives. What proportion of FLB and PCA money is so used?

RESPONSE. We do not require the banks to separate out processing and marketing loan activity from other types of loan activities reported to FCA. Therefore a precise figure is not available. However, we do know that previous regulations authorized under the Farm Credit Act of 1971 kept lending activity at a low level. Processing and marketing loans constitute a very small share of total FLB and PCA loan volume.

Mr. TRAXLER. Thank you, Governor, members of the board, and your fine staff who have joined us today. We appreciate your presence, your statement, and your candid answers to our questions.

Mr. WILKINSON. Thank you, Mr. Chairman.

Mr. TRAXLER. The committee will stand adjourned.

EXPLANATORY NOTES TO THE 1982 BUDGET OF THE FARM CREDIT ADMINISTRATION

AND SUMMARY DATA ON THE FARM CREDIT SYSTEM

FARM CREDIT ADMINISTRATION

Purpose Statement

The Farm Credit Administration is the independent Federal agency responsible for the regulation, supervision, and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System. The administration also coordinates certain activities of these institutions in the best interest of their borrowers.

These activities are carried out under the direction of a 13-member Federal Farm Credit Board. Twelve of its members, one from each Farm Credit district, are appointed for 6-year terms by the President of the United States. These members are subject to confirmation by the U.S. Senate and can serve only one term. The 13th member is appointed by the Secretary of Agriculture and serves at the pleasure of the Secretary.

Typical activities of the Farm Credit Administration include assistance in financing and investments, credit analysis, development of appraisal standards and policies, preparation of reports and budgets, and preparation and distribution of information on agricultural credit and the services offered by the various institutions of the System.

The Farm Credit Administration also issues regulations governing the lending activities and operations of the institutions under its supervision.

Originally established as an independent agency by Executive Order No. 6084, effective May 27, 1933, the Farm Credit Administration was transferred to the Department of Agriculture on July 1, 1939. It remained in the Department of Agriculture until the Farm Credit Act of 1953 reestablished it as an independent agency under the direction of the Federal Farm Credit Board.

The administration and the institutions under its supervision now operate under authorities contained in the Farm Credit Act of 1971, PL 92-181, effective December 10, 1971. PL 92-181 provides for the farmer-owned cooperative system to make credit available to farmers and ranchers, for rural residences, and to cooperatives and other borrowers for farm related businesses upon which farming operations are dependent; to provide for an adequate and flexible flow of money into rural areas, and to modernize and to consolidate existing farm credit law to meet current and rural credit needs.

On September 30, 1980, the Farm Credit Administration had 245 full-time permanent employees, 101 of whom were located in the field. These field employees are primarily bank and association examiners and supporting clerical staff.

All expenses of the activities and personnel of the Farm Credit Administration are paid by assessments collected from the banks of the Farm Credit System.

FARM CREDIT ADMINISTRATION

Administrative Expenses

Approved by the Federal Farm Credit Board and funded by assessments against earnings of the 37 Farm Credit Banks

Budget estimate, 1982	$16,226,000
Budget estimate, 1981	14,032,000
Increase	2,194,000

The increase of $2,194,000 for 1982 over 1981 results from the following:

(1)	Net effect of within grades, promotions and changes in personnel benefits	$1,716,000
(2)	Increased travel costs	270,000
(3)	Decreased cost of communications, utilities and rentals	-10,000
(4)	Increase in printing and reproduction costs	26,000
(5)	Increased cost of supplies, equipment and other items	192,000
		$2,194,000

Program (in thousands)

	1980 actual	1981 revised estimate	1982 estimate	Change 1981 to 1982
Supervision and examination of Farm Credit banks and associations	$11,562	$14,032	$16,226	$2,194
Unobligated balance	866	—	—	—
Budget total	$12,428	$14,032	$16,226	$2,194

Assessment for Operating Expenses
Assessments based upon estimated expenditures are collected from banks in the Farm Credit System and are available for administrative expenses. Obligations are incurred within fiscal-year budgets approved by the Federal Farm Credit Board as provided in Public Law 92-181.

Short-Term Investment Fund
This fund is available to the Governor of the Farm Credit Administration as a revolving fund for investment in the Class A capital stock of the Federal intermediate credit banks and Class A and Class C stock of the production credit associations.

On December 31, 1968, the Government's investment in the Class A stock of the Federal intermediate credit banks was retired in full, thus making them privately owned. Of the $107,496,625 paid the Treasury for the capital stock, $43,839,120 was credited to proprietary receipts of the general fund and $63,657,505 was returned to the revolving fund. The last of the Government's investment in the production credit associations was also repaid. There is now $111,707,505 available in this fund but no investment of Government capital in the Federal intermediate credit banks and production credit associations is anticipated in the near future.

Banks for Cooperatives Investment Fund
This fund is available to the Governor of the Farm Credit Administration for investment in Class A capital stock of the banks for cooperatives.

The last of the Government's investment in the banks for cooperatives was retired on December 31, 1968, which made them privately owned. The amount in the fund available to the Governor is $148,091,211. No investment of the Government capital in any of the banks is anticipated in the near future.

Passenger Motor Vehicle
The Farm Credit Administration hires one automobile. This automobile is used primarily by the Governor's office for transportation to and from official meetings and conferences in Washington, D.C., with other Government officials, and with congressional bodies.

The 1982 budget estimates do not include funding for the purchase of any automobiles.

THE FARM CREDIT SYSTEM

The cooperative Farm Credit System operates under authorities contained in the Farm Credit Act of 1971. The banks and associations which comprise the System are supervised and examined by the Farm Credit Administration, an independent agency in the Executive Branch of the Government.

The System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses providing farmers with services essential to their on-farm operating needs.

To fulfill these purposes, the country is divided into 12 Farm Credit Districts. At the same location in each district there is a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. There is also a Central Bank for Cooperatives in Denver, Colorado.

Federal Land Banks — Federal Land Bank Associations

The Federal land banks make loans with terms of from 5 to 40 years through 492 Federal land bank associations. These loans are secured by first liens on farm and rural real estate.

Loans are made for a variety of purposes including the purchase of farm property, rural homes, real estate needed for farm related businesses, purchase of equipment, machinery, livestock, refinancing existing mortgages and paying other debts and financing other needs of the borrower.

Total credit extended to one borrower may at no time exceed 85 percent of the market value of the property taken as security. Each Federal land bank is limited in rural home lending to 15 percent of its total loan volume outstanding.

Federal Intermediate Credit Banks — Production Credit Associations

The Federal intermediate credit banks provide loan funds to 424 production credit associations and discount notes of eligible borrowers given to certain other institutions financing agricultural producers. They also participate with one another and with production credit associations in making loans.

Production credit associations make loans with terms of up to 7 years to farmers, ranchers, rural homeowners, and certain farm related businesses and up to 15 years to producers and harvesters of aquatic products.

Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair or maintenance of rural homes and other requirements of borrowers. At no time, however, may the total credit extended for other than agricultural purposes exceed the value of assets devoted to agricultural production or the production and harvesting of aquatic products.

The total amount of credit extended to a rural homeowner may not exceed 85 percent of the appraised value of the property. Each production credit association is basically limited in rural home lending to 15 percent of its total loan volume outstanding.

Banks for Cooperatives

The twelve district banks for cooperatives serve marketing, supply and business service cooperatives whose headquarters are within their respective territories. To qualify for a loan at least 80 percent (70 percent for rural electric, telephone and public utilities) of the voting control

of the cooperative must be in the hands of farmers, ranchers, or producers or harvesters of aquatic products. To be eligible, a cooperative must also do at least 50 percent of its business with or for its members as patrons. Excepted from this requirement is business done with the United States Government and services or supplies furnished by the cooperative as a public utility. The banks also serve associations or federations of such cooperatives.

The Central Banks for Cooperatives participates with the district banks on loans which exceed their individual lending capacity.

Farm Credit Securities and Interest Rates

The Farm Credit banks obtain funds through the sale of securities by their fiscal agent in New York. To assure the acquisition of funds in an efficient and orderly manner the Farm Credit banks in January, 1977 introduced the Federal Farm Credit Consolidated Systemwide Bond. On January 1, 1979 the Consolidated Systemwide Bond became the sole bond issue of the Farm Credit banks. Bonds issued separately by the Federal land banks, Federal intermediate credit banks, and banks for cooperatives prior to this date will remain available on the secondary market until their maturity.

During the fiscal year ended September 30, 1980 the Farm Credit banks raised $49.9 billion in the financial markets through the sale of bonds. (Federal land banks - $16.9 billion, Federal intermediate credit banks - $21.8 billion, and banks for cooperatives - $11.2 billion). Of this total, $11.3 billion was taken as new money to support increased loan volume, and $38.6 billion was used to refinance maturing obligations. (New money — Federal land banks - $7.0 billion, Federal intermediate credit banks - $3.3 billion, and banks for cooperatives - $1.0 billion). This compares with the period ending September 30, 1979 when $29.9 billion was raised — $5.9 billion in new money and $24 billion for refinancing. The average interest cost for bonds during the calendar year ending September 30, 1980 was 12.20 percent, as compared with 9.82 percent for the same period in 1979.

Federal Farm Credit Banks Consolidated Systemwide Notes are the secured joint and several obligations of the 37 Farm Credit banks. These notes, which are sold on a discount basis with a maturity of 5-270 days, are used to complement short term borrowings, provide a source of interim funds between bond sales, and supply the banks with additional flexibility in securing funds during period of unexpected demand.

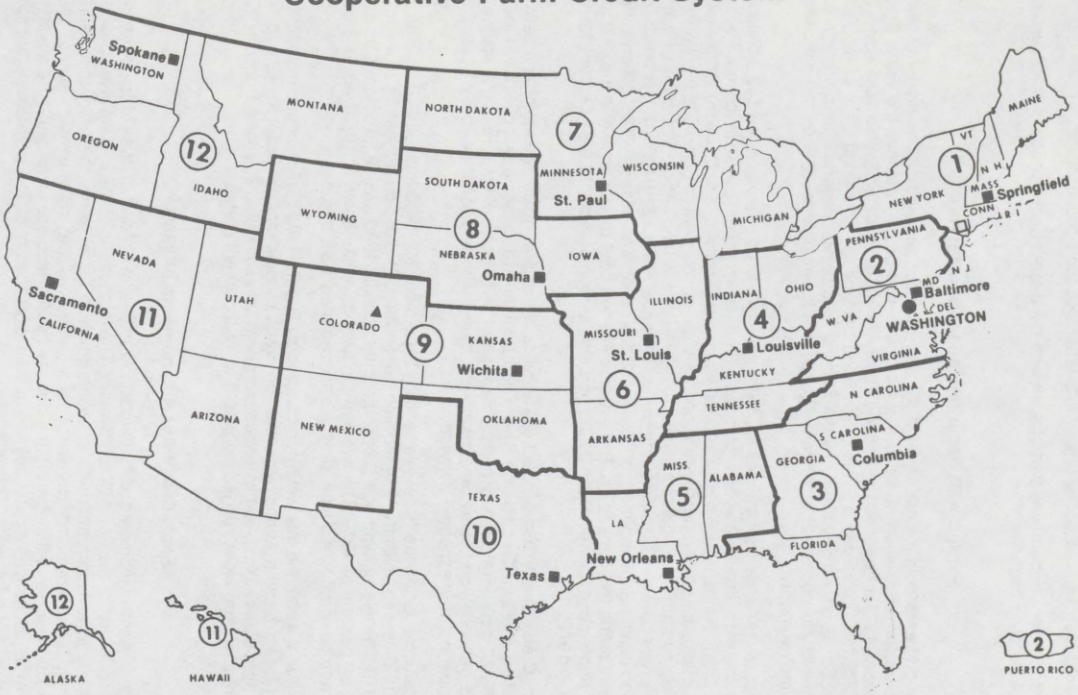
Discount notes sold during the fiscal year ending September 30, 1980 totalled $40.0 billion, an increase of 17.6 percent over the $34.0 billion raised through discount note sales in a similar period for 1979. The average interest cost of discount notes in 1980 was 12.50 percent, as compared with 9.99 percent in 1979. The average maturity for these notes in 1980 was 29.8 days with an average daily amount outstanding of approximately $3.2 billion.

As of November 1, 1980, the interest rates charged by Federal land banks ranged from 9.50 to 11.0 percent for farm loans. Loans by production credit associations ranged from 10.0 to 14.0 percent for agricultural loans. Banks for cooperatives' seasonal loans ranged from 11.75 to 14.25 percent and term loans ranged from 10.0 to 14.0 percent (Table 3).

Farm Credit Act Amendments of 1980

The Farm Credit Act Amendments of 1980 modified the Farm Credit Act of 1971 to update and improve the operation of the Farm Credit System. The institutions of the system were provided with additional and revised authorities to enable them to better serve the credit and related needs of their borrower-members. These authorities will be implemented during 1981. Increases in loan volume resulting from the changed authorities are expected to be modest in the short-term as institutions exhibit caution in their expanded role. The greatest potential for loan growth is with the Banks for Cooperatives.

Cooperative Farm Credit System



● FARM CREDIT ADMINISTRATION
□ FISCAL AGENCY
▲ CENTRAL BANK FOR COOPERATIVES
FARMBANK SERVICE

■ FARM CREDIT BANKS
Federal Land Bank
Federal Intermediate Credit Bank
Bank for Cooperatives

Table 1 – LOANS MADE TO AGRICULTURE BY THE FARM CREDIT BANKS AND ASSOCIATIONS[1]

Lending banks and associations	Calendar year					
	1960	1965	1970	1978	1979	1980[3]
	Million dollars					
Federal land banks	432	887	1,017	5,892	7,856	9,578
Production credit associations	2,607	4,135	8,277	22,347	27,828	31,938
Banks for cooperatives	685	1,316	2,476	13,861	17,997	23,651
Federal intermediate credit banks[2]	229	296	621	988	1,442	1,941
Total loans	**3,953**	**6,634**	**12,391**	**43,088**	**55,123**	**67,108**

[1] Excluded are nonfarm rural home and farm related business loans.
[2] Loans and discounts made to other financial institutions. Excludes advance loans to PCAs.
[3] 12 months ending October 31, 1980.

Source: Farm Credit Administration

Table 2 – LOANS OUTSTANDING TO AGRICULTURE, HELD BY THE FARM CREDIT BANKS AND ASSOCIATIONS, JANUARY 1, 1960 - 1980[1]

Lending banks and associations	1960	1965	1970	1978	1979	1980[3]
	Million dollars					
Federal land banks	2,563	4,280	7,186	24,211	28,859	35,235
Production credit associations	1,372	2,598	5,334	14,743	17,491	19,910
Banks for cooperatives	623	958	1,732	6,214	8,124	9,988
Federal intermediate credit banks[2]	95	132	225	500	641	771
Total	**4,653**	**7,968**	**14,477**	**45,668**	**55,115**	**65,904**

[1] Excluded are nonfarm rural home and farm related business loans.
[2] Loans and discounts outstanding to other financial institutions. Excludes credit outstanding to PCAs.
[3] Outstanding October 31, 1980.

Source: Farm Credit Administration

Table 3 – INTEREST RATES OF FARM CREDIT BANKS AND ASSOCIATIONS
November 1, 1980

Farm Credit District	Federal Land Banks[1]		Federal Intermediate Credit Banks	Production Credit Association most Prevalent Rate[2] [5]	Banks for Cooperatives	
	Farm	Rural Home			Seasonal	Term
Springfield	9.50	10.50 - 11.25[3]	10.80	10.00 - 12.50	13.25 - 14.25	13.00 - 14.00
Baltimore	11.00	11.00	11.70	11.01 - 13.00	12.00	12.00
Columbia	9.75	9.75	10.75	10.01 - 12.00	12.00	11.75
Louisville	10.00	10.50	10.57	10.01 - 12.50	13.00	11.20
New Orleans	10.25	10.50	11.60	11.51 - 13.50	10.85	10.85
St. Louis	10.75	10.75	11.42	10.00 - 13.50	12.00	10.00
St. Paul	10.25	10.75	12.20	12.01 - 13.50	11.75	11.50
Omaha	11.00	11.00	12.35	12.01 - 14.00	12.75 - 14.25	11.90 - 13.40
Wichita	10.75	10.75	11.66	12.01 - 13.50	12.00	12.00
Texas	9.75	10.25	11.80	11.51 - 14.00	12.00	11.75
Sacramento	10.25	10.75	11.86	10.51 - 13.00	12.75	12.50
Spokane	10.50	10.50	11.65	11.01 - 12.50	13.00	12.25
Central Bank	–	–	–	–	[4]	[4]

[1] Current billing rate.
[2] Interest rate plus loan service fees on agricultural loans.
[3] As assigned under the approved differential interest rate program.
[4] Follows district rate on participations.
[5] As of October 1, 1980.

Table 4 – NET WORTH OF FARM CREDIT SYSTEM AS OF JUNE 30, 1980

Banks and associations	Paid in capital ($000)	Earned net worth		Total net worth ($000)
		Reserved ($000)	Unreserved ($000)	
Federal land banks	$1,972,245	$874,313	$646,914	$3,493,472
Federal land bank associations	1,966,446	74,943	200,927	2,242,316
Federal intermediate credit banks	817,479	302,646	128,280	1,248,405
Production credit associations	2,094,152	1,102,077	100,921	3,297,150
Banks for cooperatives	680,299	176,303	101,180	957,782
Grand total	**7,530,621**	**2,530,282**	**1,178,222**	**11,239,125**
Less intercorporate items	2,742,697	222,838	–	2,965,535
Net total	**4,787,924**	**2,307,444**	**1,178,222**	**8,273,590**

Table 5 – GROSS ASSETS OF FARM CREDIT SYSTEM AS OF JUNE 30

Banks and associations	1980 ($000)	1979 ($000)	1978 ($000)
Federal land banks	$38,116,227	$30,237,850	$25,093,776
Federal land bank associations	2,377,441	1,925,429	1,670,801
Federal intermediate credit banks	20,915,004	16,674,990	13,847,280
Production credit associations	23,112,205	18,826,289	16,032,379
Banks for cooperatives	9,178,998	7,886,094	6,723,180
Grand total	**93,699,875**	**75,550,652**	**63,367,416**
Less intercorporate items	21,973,353	17,855,057	15,258,267
Net total	**71,726,522**	**57,695,595**	**48,109,149**

Table 6 – AMOUNT OF LOANS AND DISCOUNTS MADE BY FARM CREDIT SYSTEM, YEAR ENDED JUNE 30

Banks and associations	1980 ($000)	1979 ($000)	1978 ($000)
Federal land banks	$10,700,253	$7,723,667	$5,831,139
Federal intermediate credit banks to OFI's	1,697,840	1,416,918	930,213
FICB participations with PCAs	67,956	31,642	44,287
Production credit associations	31,983,189	26,406,211	21,142,488
Banks for cooperatives	20,949,506	15,727,940	12,520,778
Total	**65,398,744**	**51,306,378**	**40,468,905**

Table 7 – AMOUNT OF LOANS AND DISCOUNTS OUTSTANDING FOR FARM CREDIT SYSTEM, AS OF JUNE 30

Banks and associations	1980 ($000)	1979 ($000)	1978 ($000)
Federal land banks	$35,579,141	$28,462,406	$23,866,282
Federal intermediate credit banks to OFI's	754,980	589,273	450,864
FICB participations with PCAs	33,132	17,011	14,699
Production credit associations	20,680,545	16,977,890	14,479,916
Banks for cooperatives	7,583,686	7,152,924	6,109,471
Total	**64,631,484**	**53,199,504**	**44,921,232**

Table 8 – SELECTED COMPARATIVE DATA ON FEDERAL LAND BANK AS OF JUNE 30

Item	1980 ($000)	1979 ($000)	1978 ($000)
Federal land banks			
Gross assets	$38,116,227	$30,237,850	$25,093,776
Loans outstanding:			
Number	578,189	526,914	495,972
Amount	$35,579,141	$28,462,405	$23,866,282
Loans closed during year ended:			
Number	102,090	84,063	66,837
Amount	$10,700,253	$7,723,667	$5,831,139
Repayment of loans during year ended[1]	$1,615,668	$1,571,570	$1,539,767
Real estate acquired during year ended:			
Number	70	104	100
Investment	$5,440	$11,777	$14,135
Real estate on hand:			
Number	69	96	112
Investment	$6,798	$9,904	$14,476
Bonds outstanding	$31,101,641	$24,474,655	$20,741,627
Net worth:			
Capital stock owned by Federal land bank associations	$1,972,245	$1,594,431	$1,379,899
Legal reserve	$752,303	$628,310	$533,560
Surplus reserve	$122,010	$114,510	$101,049
Earned surplus	$646,914	$506,275	$394,571
Total net worth	**3,493,472**	**2,843,526**	**2,409,079**
Federal land bank associations			
Number of associations	492	512	520
Net worth:			
Capital stock owned by borrowers	$1,966,446	$1,584,770	$1,371,155
Legal reserve and surplus	$275,870	$225,382	$198,142
Total net worth	**2,242,316**	**1,810,152**	**1,569,297**

[1] Includes principal matured, special principal payments, loans paid off prior to maturity.

Table 9 – SELECTED COMPARATIVE DATA ON FEDERAL INTERMEDIATE CREDIT BANKS AS OF JUNE 30

Item	1980 ($000)	1979 ($000)	1978 ($000)
Gross assets	$20,915,004	$16,674,990	$13,847,280
Loans and discounts outstanding	19,278,323	15,636,439	13,273,668
Loans and discounts made	15,268,110	11,975,704	10,437,519
Repayment of loans	11,930,634	9,605,601	9,775,181
Unmatured debentures and bonds outstanding	17,642,008	13,584,783	11,709,697
Net worth:			
Capital stock owned by Production credit associations	771,237	658,547	575,690
Participation certificates-			
Other financing institutions	46,242	34,782	28,947
Surplus reserve	63,068	63,068	63,068
Surplus	18,050	18,050	18,051
Legal reserve - Allocated to patrons & reserve for contingencies	239,578	204,908	176,884
Undistributed earnings	110,230	55,769	49,400
Total net worth	**1,248,405**	**1,035,124**	**912,040**

Table 10 – SELECTED COMPARATIVE DATA ON PRODUCTION CREDIT ASSOCIATIONS AS OF JUNE 30

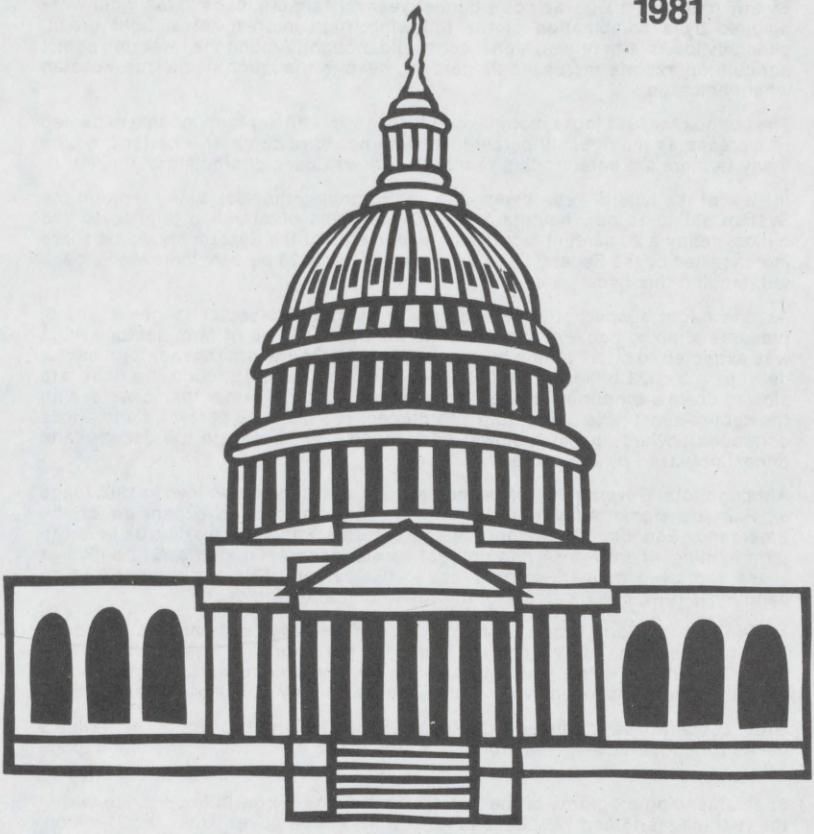
Item	1980 ($000)	1979 ($000)	1978 ($000)
Gross assets	$23,112,205	$18,826,289	$16,032,379
Number of associations	424	426	427
Number of members	467,149	459,147	462,778
Amount of loans made during year ended	$31,983,189	$26,406,202	$21,142,488
Number of loans outstanding	380,897	364,658	354,306
Amount of loans outstanding	$20,680,545	$16,977,865	$14,479,916
Total amount of repayment of loans during year ended	$18,959,776	$16,209,669	$13,490,801
Amount of renewals	$9,220,775	$7,661,399	$6,942,482
Net worth:			
Paid-in surplus - FICB	$3,750	$5,750	$4,800
Capital stock owned by Federal intermediate credit banks	–	–	$5,322
Capital stock owned by members	$2,094,152	$1,746,495	$1,507,793
Equity reserve	$10,024	$10,108	$10,373
Surplus	$1,088,303	$939,118	$815,249
Unapplied earnings	$100,921	$61,859	$50,963
Total net worth	**3,297,150**	**2,763,330**	**2,394,500**

Table 11 – SELECTED COMPARATIVE DATA ON BANKS FOR COOPERATIVES AS OF JUNE 30

Item	1980 ($000)	1979 ($000)	1978 ($000)
Gross assets	$9,178,998	$7,886,094	$6,723,180
Number of borrowing cooperatives	3,262	3,528	3,528
Loans made during year ended	$20,949,506	$15,727,940	$12,520,778
Repayment of loans during year ended	$12,508,788	$11,142,029	$11,768,719
Loans outstanding	$7,583,686	$7,152,922	$6,109,471
Unmatured debentures and bonds outstanding	$7,299,738	$5,885,478	$5,372,550
Net worth:			
Capital stock owned by borrowers and others	$680,299	$571,333	$481,113
Surplus - Reserved	$88,111	$88,111	$88,111
Surplus	$24,386	$23,540	$23,407
Surplus - Allocated to patrons	$88,192	$72,169	$68,903
Undistributed earnings	$76,794	$43,852	–
Total net worth	**957,782**	**799,005**	**661,534**

FCA
FARM CREDIT ADMINISTRATION

Report To Congress 1981



HIGHLIGHTS

The story of the cooperative Farm Credit System is one that's been told many times, but bears retelling (page 1) because it represents an excellent sample of how a segment of society (U.S. farmers) with initial help from the U.S. Government, has built a multi-billion dollar, farmer-owned credit facility that is the envy of the entire world. Not only is the System self-sustaining, but it also pays for its Government supervision, the Farm Credit Administration.

By any measure, 1980 was not a banner year for farmers (page 3), as most were plagued by a combination of the following: high interest rates, tight credit, generally lower farm prices, higher costs and drought. Among the few bring spots: agricultural exports increased 27 percent, despite the much publicized Russian wheat embargo.

The outlook for 1981 looks more favorable (page 4), with net farm income expected to increase as much as 40 percent. It could not have come at a better time, as many farmers are entering this year with serious financial problems.

In view of the type of year it was, it is not surprising that borrowing through the System sailed to new heights (page 10), as loans outstanding jumped to $68 billion, nearly a 20 percent increase. All segments of the System showed a sharp increase, led by the Federal Land Banks which had a 23 percent increase in loans outstanding this fiscal year.

As one might suspect, the balance sheet of the farm sector (pages 4 and 6) presents a mixed bag. For the first time the market value of farm sector assets was expected to hit $1 trillion by January 1, 1981. On the other hand, farm sector debt grew by $23 billion to $180.5 billion by year's end. Although the debt rate slowed down a bit during the year, it continued to climb faster than assets, with the debt-to-asset ratio rising from 17.1 percent in 1979 to 18 percent. Land prices continued upward, but at a slower pace (page 4). However, in the decade land prices increased by 245 percent.

Although total Government loans and payments to farmers declined in 1980 (page 8), Farmers Home Administration (FmHA) lending through expansion of the Emergency Economic Program rose sharply. This was particularly true in short-term lending where FmHA had nonreal estate loans estimated at $13 billion at year's end, while its market share rose to 15.4 percent. This compares to $3.1 on January 1, 1978, or 5.6 percent of the total nonreal estate debt.

Meanwhile, the Farm Credit System's share of total debt outstanding edged upward to a new high of 32.1 percent (page 12). Previous high was 30.3 percent in 1979. The greater share was attributed to problems commercial banks and insurance companies faced, which made some withdraw from agricultural lending.

Grain cooperatives continued to be far and away the largest users of the Nation's banks for cooperatives, accounting for nearly 41.5 percent of loans made (page 14).

Special lending programs of the System continued to grow in importance during the year (pages 16 and 17). Loans to rural utility cooperatives exceeded $1 billion, for the first time, while Federal land bank loans for rural housing edged past $2 billion. PCA aquatic loans jumped 60 percent (over 403 million dollars), while the

amount of loans discounted to OFIs (other financial institutions) by the FICBs continued its upward trend, an over 20 percent increase in the year.

Despite ever-increasing capital requirements to farms, the Farm Credit System continues to do a good job in serving young farmers (page 17). During 1979, for example, young farmers (35 years old and younger) accounted for 39 percent of the PCA loans, while young farmers were involved in one-quarter of the FLB loans closed during 1979.

Although loan quality deteriorated slightly in 1980, due largely to low commodity prices earlier this year, the System sustained a high level of loan quality (pages 18, 19, and 20). At the end of 1980, PCA loans considered "acceptable" were estimated at 86.1 percent, a drop of 1.6 percent for the year. Bank for cooperatives loan losses for the year were $11.5 million, or .15 of loans outstanding on that date.

The System continued to obtain most of its loan funds through the sale of securities to the public (page 21). On November 3, 1980, the System had $58.7 billion in bonds outstanding, a 20 percent increase over a year ago.

Interest rates charged by the System during 1980 fluctuated widely, reflecting the cost of money (pages 23, 24, and 25). As an example, rates paid on a System's 6-month issue fell from a high of 17.25 percent in April to a low of 7.9 percent in July.

Top policy-making body for the Farm Credit System and Farm Credit Administration is the Federal Farm Credit Board (page 28). Prime responsibility of the Farm Credit Administration is maintaining the integrity of the System (pages 28 and 29). FCA continues to operate in a highly efficient manner, with its cost of operation representing every 15/100 of one percent of the System's expenses for the year.

Congress passed the Farm Credit Act Amendments of 1980 (P.L. 96-592), which will help the System serve American agriculture even better during the years ahead (pages 31, 32, and 33).

Report To Congress — 1981

DONALD E. WILKINSON, GOVERNOR
FARM CREDIT ADMINISTRATION
WASHINGTON, D.C. 20578
WILLIAM DALE NIX, CHAIRMAN
FEDERAL FARM CREDIT BOARD

THE FARM CREDIT SYSTEM

Recognizing that a prosperous, productive agriculture is essential to a free nation, the U.S. Congress created the cooperative Farm Credit System. Congress designed the System to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations.

Although originally funded by the U.S. Government, this "seed" capital has since been repaid, and the Farm Credit System is now entirely borrower-owned and controlled. Even the cost of the Farm Credit Administration (FCA), the independent Federal agency which examines and supervises the System, is assessed upon the banks it supervises. Therefore, it is the System's borrowers and not the taxpayers who pay the expenses of the Farm Credit Administration.

The Farm Credit System obtains its loan funds primarily through the sale of securities in the national and international money markets. These securities are not guaranteed by the U.S. Government. They are sold through the System's Fiscal Agent in New York City.

The three agricultural credit systems which comprise the Farm Credit System are described below.

Federal Land Banks/Federal Land Bank Associations
The Federal land banks (FLBs) make loans ranging from 5 to 40 years through 492 Federal land bank associations (FLBAs). These loans must be secured by first liens on farm or rural real estate or their equivalency.

Loans may be made for a variety of purposes including the purchase of farms, farmland, and farm improvements; rural homes and real estate needed for farm-related businesses; the purchase of equipment, machinery, and livestock; refinancing existing mortgages and paying other debts; and financing other needs of the borrower.

Federal Intermediate Credit Banks/Production Credit Associations
The Federal intermediate credit banks (FICBs) provide loan funds to 424 local production credit associations (PCAs) and discount the notes of eligible borrowers given to other financing institutions. The FICBs may also participate with production credit associations, commercial banks, and one another in making loans.

PCAs make loans with terms up to 10 years to farmers, ranchers, rural homeowners, and certain farm-related businesses. They also make loans with terms up to 15 years to producers and harvesters of aquatic products.

Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair, or maintenance of rural homes, and other requirements of the borrower.

Banks for Cooperatives

The banks for cooperatives (BCs) serve agricultural, aquatic, and rural electric cooperatives whose headquarters are within their respective districts. The BCs provide cooperatives with a complete credit service designed to fill their specialized needs.

The Central Bank for Cooperatives participates with the district banks in loans that exceed their individual lending limits. The BCs may also participate with one another and with other financing institutions in making loans.

The banks for cooperatives make term loans for purposes such as constructing, remodeling, or expanding facilities, or for purchasing land, buildings, or equipment. Seasonal loans are made to finance current or seasonal assets.

AGRICULTURAL CONDITIONS

In 1980, farmers were faced with major financial problems brought about by high interest rates, tight credit, and low farm commodity prices in the first half of the year, and widespread drought during the summer. Some producers enjoyed record yields, while others faced severe crop damage. The net income of livestock producers improved less than expected, as energy and feed costs escalated at a faster rate than expected. For some farmers, 1980 may have been their best income year ever. For others, it may prove to be their worst.

Weak demand combined with large crop and livestock supplies in early 1980 kept prices down. Transportation bottlenecks in the winter and the trade embargo of the Soviet Union further depressed prices as grain export prospects declined. Domestic demand also weakened as the economy slipped into a recession.

Costs of farming rose rapidly, especially for fertilizer and fuel during the first half of 1980. Soaring interest rates and credit availability problems in commercial banks during the same period put further strains on farmers. However, credit was available through the Farm Credit System throughout the year, and improved commercial bank liquidity, as well as improved farm commodity prices in the second half of the year, helped to reduce financial difficulties for those farmers not suffering from the drought.

Farm Income

Net farm income dropped about 20-25 percent from 1979's $31 billion to $23-25 billion for 1980. This drop in net income resulted from the failure of gross receipts to keep up with the rapid run-ups in production expenses. An increase of approximately 13 percent in crop receipts for the year (mostly realized in the second half) and a slight improvement in livestock receipts contributed to a rise of about 3 percent in gross income. An 11-percent surge in production expenses, led by a 39-percent increase in fuel and energy prices, a 23-percent increase in fertilizer prices, and significantly higher short-term interest costs erased the gross income gains of producers.

In real dollar terms, total net farm income was lower in 1980 than at any time during the previous decade. However, per farm income looked considerably less bleak because fewer farms shared in the total in 1980, compared to the 1970s. From a cash flow standpoint too, the situation in 1980 was not as severe as the net farm income decline would suggest. Net cash income — total cash income less total cash expenses, which represents cash income available for capital and operator consumption expenditures, declined about half as much in dollar terms between 1979 and 1980 as did net farm income. The primary reason for this was that crop producers had stored a relatively large amount of the record 1979 crop for sale in 1980, which counted as unrealized net income in 1979 but improved 1980 cash flow. Farmers who had part of their 1979 crop available for sale in 1980 and were not affected by the summer drought will probably view 1980 as an excellent year. Yet, a substantial number of producers suffered from a combination of events that will continue to hamper their financial stability in 1981 and perhaps beyond.

Agricultural Exports

U.S. agricultural exports totaled $40.5 billion in Fiscal Year (FY) 1980, a substantial 27-percent jump above the record 1979 level. To a considerable extent, this large

increase reflects rising commodity prices in the second half of the year. However, despite transportation problems and restrictions on trade with the Soviet Union, volume also increased because of strong world-wide demand. Export volume reached 164 million tons, a 19-percent rise from FY 1979. With a slight decrease in agricultural imports to $17.4 billion, the resulting agricultural trade balance is projected to be $23 billion. The rest of the U.S. merchandise trade balance would have been in surplus by about $40 billion, were it not for $81 billion in oil imports. Overall, there was an $18 billion deficit in the Nation's balance of trade.

Outlook for 1981

Prospects for higher crop and livestock prices in 1981 suggest improved farm incomes. All major commodity producers should have better opportunities for profit. Cash receipts will likely rise more than costs. Net farm income for 1981 could be up as much as 40 percent over last year, but they most likely will not attain the level reached in 1979.

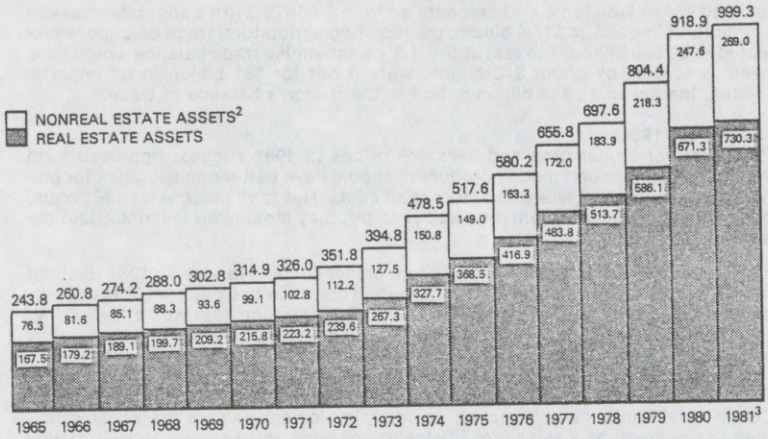
Farm capital expenditures for land and machinery should recover in 1981 to about the 1979 level, and operating expenditures will continue to be strong. This will produce strong credit demands in regions benefiting from the improved prices. Other regions will require credit for refinancing 1980 debts, but are likely to have weak capital expenditures. Many farmers in those regions enter the year with severe financial problems requiring careful analysis and, in many cases, forbearance. The Farm Credit System should grow more slowly relative to other lenders. Commercial banks have improved liquidity, implement dealers are accelerating their use of credit as a sales tool, life insurance companies should actively supply funds using new mortgage instruments, and seller contracts will continue to be significant in the land market. Clearly, 1981 will be a challenging year for all lenders.

Farm Assets

On January 1, 1981 the market value of farm sector assets is estimated to be $1 trillion. A decade ago, farm assets were only about one-third of this amount. Even in real terms (after inflation), asset growth in the farm sector has been considerable with a 191.8 percent increase during the decade. The balance sheet has become slightly less liquid over the past 10 years. Real estate assets gradually increased in this period from 69 percent to 73 percent of total assets. One constant over the past 10 years is that farm assets, debts, and incomes, are very unevenly distributed among different size farms. At the beginning of 1980, only 10 percent of all farms had sales over $100,000, but these large farms accounted for 26 percent of total farm assets, 33 percent of the farm equity and 48 percent of the farm debt.

Land prices increased by 245 percent during the 1970s, an average annual gain of 13 percent, compared to inflation which averaged 7.5 percent annually. Although land price gains slowed in 1980 (to 9 percent), the slowdown appears to be temporary. The same economic climate that slowed land transfers and farm machinery sales also severely limited land price gains, particularly during the first half of 1980. Because of Land Bank, Farmers Home Administration (FmHA) and Agricultural Stabilization and Conservation Service (ASCS) programs and commercial lender forbearance, most of those producers affected by the 1980 net income weakness were able to remain in farming, thereby avoiding widespread distress sales. This kept farmland prices from declining in most cases. Those

BALANCE SHEET OF FARM SECTOR-ASSETS[1]
(BILLIONS OF DOLLARS)



[1]AS OF JANUARY 1
[2]INCLUDES FINANCIAL ASSETS
[3]PRELIMINARY

affected by the 1980 drought will continue to have problems, especially where it came on the heels of poor 1977 and 1978 crops.

Farm expansion continues to be the primary purpose behind land purchases, and the higher commodity prices during the fall of 1980 have again spurred this demand. As a result, land prices started rising in 1980 and should increase at a faster rate in 1981. As in 1980, the gains will vary considerably by region, with the greatest gains in rangeland, those areas not affected by drought. Areas depending heavily on fertilizer and energy inputs will continue to have lower land price gains. Moreover, continued high interest rates in 1981 may dampen demand for land purchases below what would be normal for a year of greatly improved farm income.

Farm income during the 1960s was consistently higher than farm capital gains. But during the 1970s, this situation was reversed. Farmland owners received substantially more of their return in capital gains. In 1980, the increase in the value of farm real estate assets was about 2½ times greater than farm income and during 7 out of 10 years of the 1970s, real capital gains[1] plus current returns to land led to a rate of return to farm equity in excess of 10 percent.

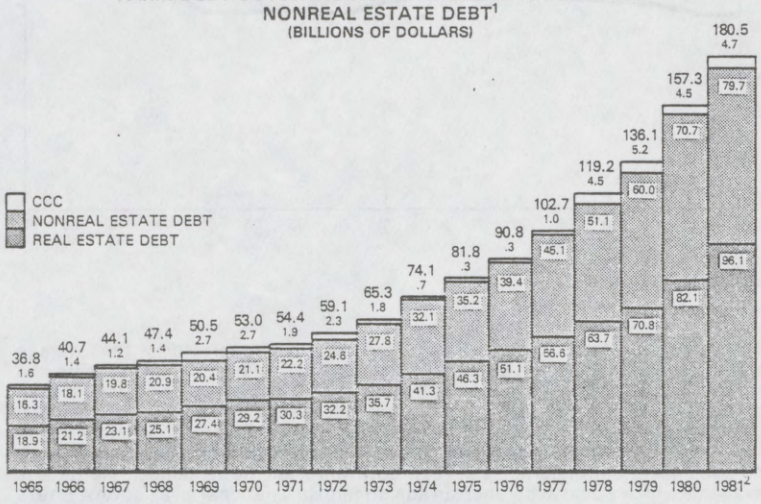
[1]Capital gains in excess of the amount of gain required to hold constant the purchasing power of the original investments.

While one-third of the increase in U.S. farmland asset values goes to nonoperator landlords, most of the rest goes to older farmers. The younger farmer, those farmers who are under 35, own only about 6 percent of the farmland, although some also own land as shareholders in family partnerships or family farm corporations. These farmers must rely mostly on income flows as a return on their farm operation. They do not have the option of supplementing cash flows through the refinancing of equity gains in farmland, a technique used widely by farmland owners in 1980 to offset depressed farm incomes.

Since a large percentage of the total return to farmland has been in the form of capital gains, farmland buyers require cash flows from other sources to service debt loads on new land purchases. As we move into a period of tightening worldwide food stocks during the 1980s, the current returns to farmland will undoubtedly increase. These expectations will be strong support for continued land price gains, in spite of an expected decline in the inflation rate.

Farm Debt

FARM DEBT OUTSTANDING — REAL ESTATE DEBT AND NONREAL ESTATE DEBT[1]
(BILLIONS OF DOLLARS)

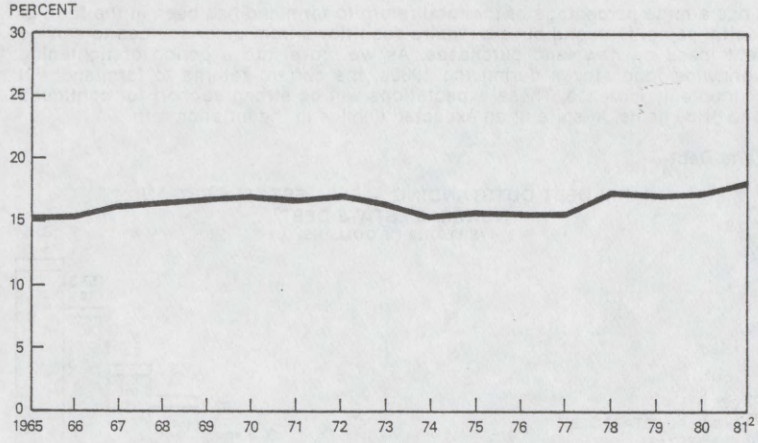


[1]AS OF JANUARY 1st
[2]PRELIMINARY

Farm sector debt grew an estimated $23 billion during 1980 to $180.5 billion at year end. The growth rate in farm debt was slower than in 1979, but nonetheless set a record in dollar terms. Well over one-half of the growth was in debt secured by real estate, which grew at the greatest rate in 60 years. This growth reflected the demand for refinancing both long- and short-term debt rather than a demand

for land purchases. Much of this demand for funds was stress related. But, some was stimulated by the lower interest rates for long-term than for short-term loans. This conversion of capital gains into cash flows typically occurs during poor farm income years. Debt backed by real estate collateral now accounts for 53 percent of total farm debt, up from 52 percent at the end of 1979.

DEBT/ASSET RATIO OF FARM SECTOR[1]

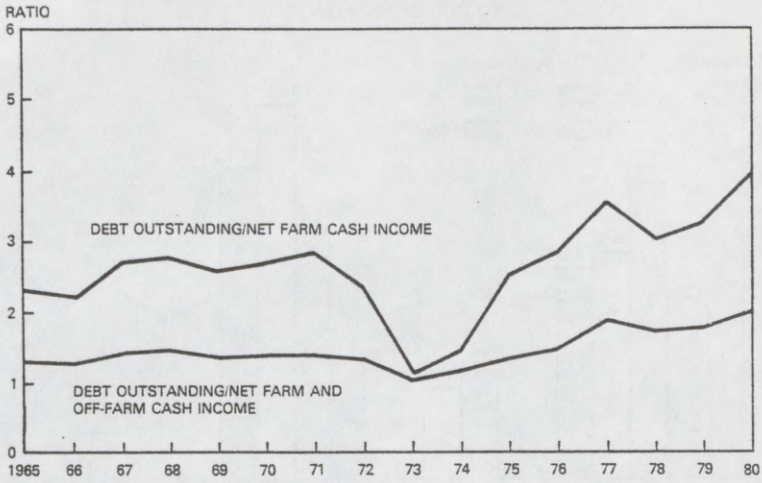


[1]AS OF JANUARY 1st
[2]PRELIMINARY

The debt-to-asset ratio is sometimes cited as a rough indicator of the leverage position of the farm sector. Because of the faster gains in debt than in assets, the ratio rose slightly from 17.1 percent in 1979 to 18.0 percent as of yearend (based on market asset values). While this measure is widely quoted, it is of comparatively little value in representing the leverage position of farmers. Its most important limitation as an indicator is its failure to exclude the many farmers who have no debt, therefore distorting the ratio downward for the remainder. No data is available which would allow such an adjustment on a national level, however, 1979 Federal land bank borrowers had a debt-to-asset ratio of 33 percent. As might be expected, younger FLB borrowers (under age 35) had a higher ratio of 40 percent.

In addition to the farm borrower's equity, lenders consider measures of repayment ability in judging creditworthiness. The ratio of debt outstanding to net cash income from farm sources is one such indicator. It indicates the future debt service requirements relative to cash income flows. The ratio is expected to rise to 4.0 at the end of 1980, indicating that 4 years would be required to pay off existing debt from current farm income levels. Immediately following the record income of

RATIO OF FARM DEBT OUTSTANDING TO CASH INCOME



1973, the ratio reached a low of 1.6 but has risen almost continuously since then. These increasing debt service requirements suggest that farmers are becoming more vulnerable to changes in their income flows.

Fortunately, steadily rising off-farm income has helped stabilize total income. The bottom line in the graph includes both off-farm and farm cash income and shows a much healthier picture of farm debt repayment capacity. However, this ratio is also at a historic high at 2.0 percent.

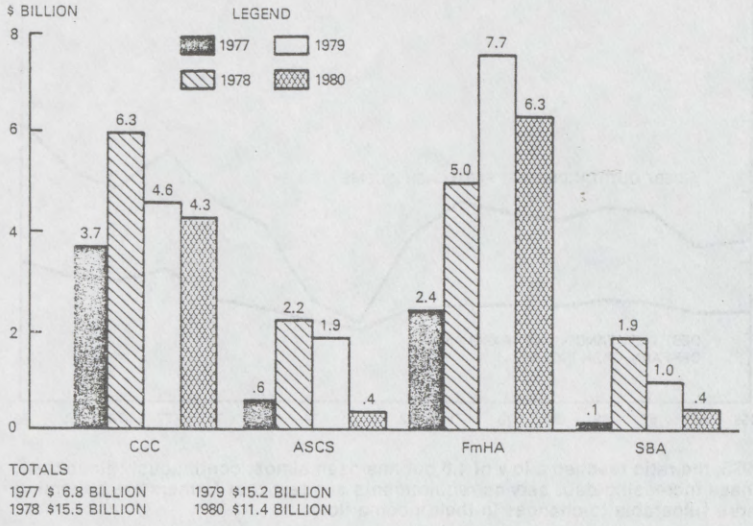
Off-farm income is much less important for large farms than for small farms. In fact, about 70 percent of all off-farm income goes to farms with sales under $5,000 annually. Although off-farm income is clearly important to many operators of large farms, the dominant portion of their income comes from farming, which makes them more susceptible than small farmers to commodity price variations.

Government Loans and Payments

Total Government loans and direct payments to agricultural producers declined in FY 1980. Weather-related problems and a program change also shifted the emphasis of Government agricultural lending. Total Government lending was $11.4 billion, the lowest since FY 1977. The decline of 24.8 percent from FY 1979 contrasts with an increase in PCA and FLB agricultural lending of 19.5 percent.

Commodity Credit Corporation (CCC) commodity and Agricultural Stabilization and Conservation Service (ASCS) disaster payments were down from previous years in FY 1980. Record production in the 1979 crop year accounted for the decline. However, Farmers Home Administration (FmHA) emergency programs

TOTAL GOVERNMENT AGRICULTURAL LOANS MADE
AND DIRECT PAYMENTS



TOTALS

1977 $ 6.8 BILLION
1978 $15.5 BILLION
1979 $15.2 BILLION
1980 $11.4 BILLION

provided a large infusion of funds to the agricultural sector in both Fiscal Years 1979 and 1980. The Emergency Disaster Program (which provides loans to farmers in designated disaster areas) reached over 54,000 farmers with $2.3 billion in FY 1980. The 1980 drought will expand activity in this program well into 1981.

The Economic Emergency Program provides loans to farmers and ranchers who are primarily and directly engaged in agricultural production but unable to obtain credit due to a shortage of loanable funds from their normal lender or due to a shortage of cash flow to the borrowers caused by low product prices. This program provided nearly 45,000 farmers with $2.2 billion in FY 1980. The extension of the Economic Emergency Program through FY 1981 will contribute an additional $1.2 billion under existing authority.

In 1980 Congress granted FmHA the authority to make loans previously made by the Small Business Administration (SBA) to farmers who suffered losses from natural disasters. The change in law is designed to take SBA out of the farm loan business.

The expansion of the Economic Emergency Program and the takeover of SBA agricultural lending programs has considerably enhanced the FmHA short-term lending role. At the start of 1978, FmHA had $3.1 billion, or 5.6 percent, of total nonreal estate debt. By 1981, it grew to an estimated $13 billion and market share expanded to 15.4 percent.

FARM CREDIT SYSTEM YEAR IN REVIEW

The Farm Credit System had $68.0 billion in loans outstanding on October 31, 1980, 19.4 percent more than a year earlier. A total of $68.1 billion was borrowed during the year, 21.4 percent more than a year ago. Most of the loan demand occurred during the first half of 1980 when other lenders were having difficulty meeting the credit needs of many producers and when Farm Credit System interest rates were attractive compared to rates charged by other lenders. Unusual economic conditions and the drought contributed to wide monthly variations in the amount of loans made. Further, loan volume growth varied widely by district.

Federal Land Banks
FLB loans outstanding reached $37.3 billion, up 23 percent for the Fiscal Year. FLB loans outstanding grew fairly rapidly through May and gradually slowed their growth rates in the months following. There was $10.2 billion in loans closed during the year. Loans closed by month continued to see-saw throughout the year, with the October level well below the level of the prior year. New money loaned increased as a percent of loans closed during most of 1980 as the FLBs accommodated borrowers' desires to refinance short-term loans and restructure their debt.

Production Credit Associations and Federal Intermediate Credit Banks
PCAs loaned $32.3 billion during the year, $4.2 billion or 14.9 percent more than the previous year. However, loans outstanding on October 31, 1980, dropped seasonally to $19.9 billion. October marked the third consecutive monthly decline in PCA outstandings and the lowest year-over-year growth rate in PCA outstandings since November 1978.

FICBs loaned an additional $1.9 billion to other financing institutions and had $771 million in loans outstanding to other financing institutions as of October 1980.

PCA and FICB lending fluctuates more than FLB lending because of wider fluctuations in short-term credit demand and changing supplies of short-term credit by commercial banks and the Government. PCAs supplied a large share of the short-term credit to farmers during the spring months, when commercial banks were unable to meet demand because of liquidity problems. The Government also expanded its lending to agriculture in an effort to mitigate the effects of the tight credit supply and the drought.

Banks for Cooperatives
On October 31, 1980 the BCs had nearly $10.0 billion outstanding, an increase of 22.9 percent for the year and a continuation of strong summer and fall loan volume activity. Loans made were 31.4 percent higher than a year earlier, to $23.7 billion. Changes in the competitivenes of BC rates compared to those of other lenders were the principal force behind fluctuation in BC loan demand during the year.

Farm Credit System Funding
The System issued $50.2 billion in bonds and $40.0 billion in discount notes during the year ended October 31, 1980. During the same period of the previous year, a total of $35.8 billion in bonds and $34.0 billion in discount notes was issued. On

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October 31, 1980, the System had $58.8 billion in bonds and $3.9 billion in discount notes outstanding. A year earlier, bonds outstanding totaled $52.8 billion and discount notes outstanding were $3.4 billion. Costs of funds varied widely during the year, as inflation and monetary restraints were transmitted into financial markets. Six-month bond rates varied from 17.25 percent in April to 7.9 percent in July.

The following data are provided as of October 31, 1980.

Federal Land Banks	**1979**	**1980**
Number of loans outstanding	541,700	588,486
Amount of loans outstanding (000)	$30,302,481	$37,260,402
Number of loans made during year	91,113	92,576
Amount of loans made during year (000)	$8,533,241	$10,243,722

Production Credit Associations*	**1979**	**1980**
Number of members with loans outstanding	365,245	374,501
Amount of loans made during year (000)	$28,148,134	$32,335,697
Amount of loans outstanding (000)	$17,834,572	$19,909,692

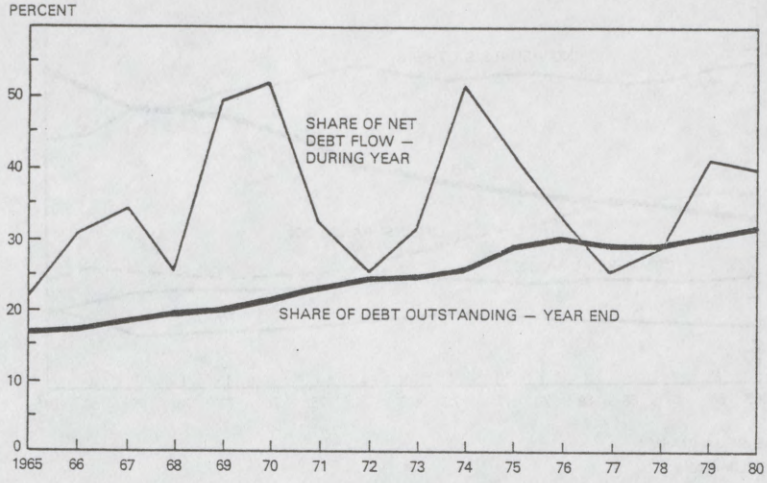
Federal Intermediate Credit Banks	**1979**	**1980**
Loans made to other financing institutions during year (000)	$1,442,265	$1,940,605
Loans outstanding to other financing institutions (000)	$640,689	$771,146

Banks for Cooperatives	**1979**	**1980**
Number of cooperatives with loans outstanding	3,509	3,467
Amount of gross loans outstanding (000)	$8,124,240	$9,987,860
Amount of loans made during year (000)	$17,997,321	$23,650,741

*PCAs obtain loan funds from FICBs.

FARM CREDIT SYSTEM SHARE OF FARM DEBT

FARM CREDIT SYSTEM SHARE OF NET FARM DEBT FLOW
DURING YEAR AND DEBT OUTSTANDING AT YEAR END



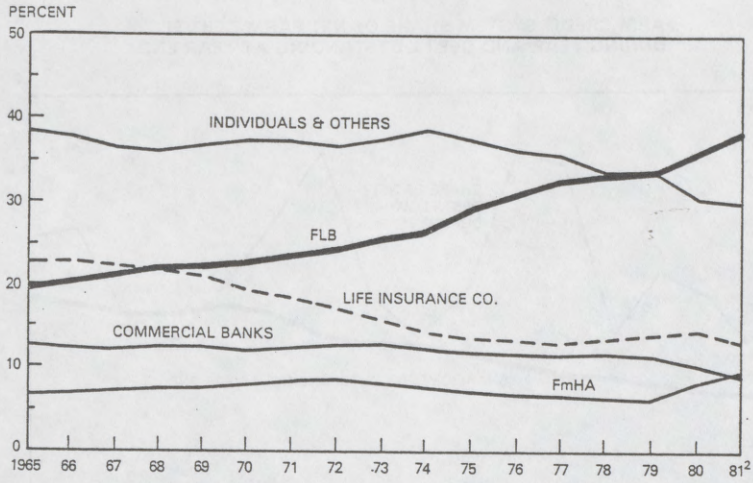
The Farm Credit System share of debt outstanding reached a record 32.1 percent at the end of 1980. The previous record was 30.3 percent at the end of 1977, and was followed by cyclic declines in 1978 and 1979. However, the System share has followed a general increasing trend, rising from 16.5 percent in 1965. Much of the increase has come in the share of real estate debt.

While the share of debt outstanding moves gradually, the shares of net farm debt flow by different lenders fluctuates widely from year to year as economic and financial conditions change. In 1979 and 1980, commercial banks and life insurance companies encountered problems that restricted their ability to satisfy an ever-increasing demand for credit by farmers. The Farm Credit System filled in, as the residual lender, experiencing rapid growth. In 1979, the Farm Credit System's share of the net flow grew by more than 10 percentage points to 41.3 percent. In 1980, the System share remained high at 40 percent. In the same period, FmHA also provided an increasing share, particularly of short-term credit.

Federal Land Banks

For the first time in history, FLBs held the single largest share of outstanding real estate debt at the beginning of 1980. By the end of 1980, they had further increased their share to 38 percent, continuing a long, gradually rising trend. During this time, life insurance companies, individuals and others have gradually

FARM REAL ESTATE DEBT OUTSTANDING — LENDER SHARES[1]



[1]AS OF JANUARY 1
[2]PRELIMINARY

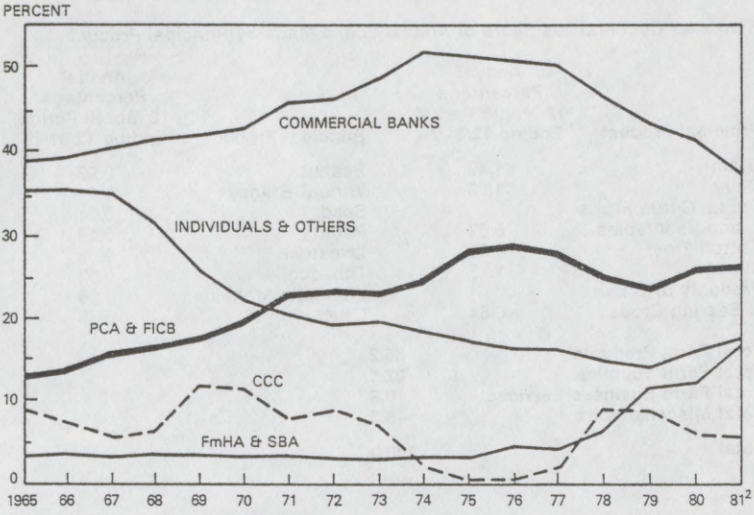
lost market share. Commercial banks' and FmHA's share of farm real estate debt has remained fairly stable in the last 15 years; although commercial banks' share declined during 1980.

Production Credit Associations and Federal Intermediate Credit Banks

The impact of escalating interest rates, the drought, and other economic events during 1980 was most strongly felt in the short-term lending market. Commercial banks lost some share of the market during 1980 to FmHA programs, but continued to hold the largest share of nonreal estate debt outstanding (37.2 percent at the end of 1980). PCAs and FICBs held constant at 25.3 percent of the nonreal estate debt market. FmHA and SBA had a combined market share of 15.4 percent.

Because of the increased loan activity in FmHA's Economic Emergency and Emergency Disaster Programs, FmHA market share of nonreal estate debt increased about 3.5 percentage points above the previous year. The share held by individuals and others, once the second largest share next to commercial banks, has steadily declined since 1965. Finally, CCC market share was 5.5 percent at the end of 1980, down slightly from the 6 percent level of the previous year but less than the share held in 1978 and 1979.

FARM NONREAL ESTATE DEBT OUTSTANDING — LENDER SHARES[1]



[1]AS OF JANUARY 1
[2]PRELIMINARY

Banks for Cooperatives

Agricultural cooperatives had $6.1 billion in loans outstanding at the close of the 1976 Fiscal Year, compared to $2.8 billion at the close of the 1970 Fiscal Year. (Most recent data available)

This represents a 14 percent annual rate of growth compared to the 10 percent annual growth in the total farm debt over the period. The major reasons for this expansion in debt are inflation, expansion in cooperative facilities, and the use of greater debt leverage. Cooperatives, just as farmers, have increasingly relied on borrowed capital in relation to internally generated funds. Between 1970 and 1976, the debt-to-asset ratio increased 5 percentage points to 58 percent. The largest 100 cooperatives are leveraged even more with a debt-to-asset ratio of 66 percent.

The banks for cooperatives system is the leading source of credit for the Nation's agricultural cooperatives, providing nearly two-thirds of their borrowed funds. Marketing cooperatives tend to acquire a greater share of their debt capital from the BCs than do supply cooperatives. About 65 percent of the BCs' loans are made to support farm product marketing activities, and about 28 percent are made to support the sale of farm supplies. The largest share of BCs' loan money goes for grain marketing, with dairy marketing a distant second. The BC system also

offers financially related services in such areas as budgeting, long range planning, operating trend analysis, credit standards, and auditing practices.

Banks for Cooperatives Share of Annual Loans Made by Principal Product

Principal Product	Annual Percentage 12 Month Period Ending 12/31/79	Principal Product	Annual Percentage 12 Month Period Ending 12/31/79
Grain	41.49	Peanuts	0.97
Dairy	11.23	Wine & Brandy	0.21
Fruits, Citrus Fruits and Vegetables	5.62	Seed	0.01
Cotton Fiber	2.91	Poultry	0.19
Sugar	1.13	Livestock	0.46
Products of Oil Bearing Crops	0.54	Tobacco	0.03
		Wool and Mohair	0.06
		Other	0.35
Total Farm Products	**65.2**		
Total Farm Supplies	**27.6**		
Total Farm Business Services	**0.9**		
Total Miscellaneous	**6.3**		
Total	**100.0**		

SPECIAL LENDING PROGRAMS

Outstanding at October 31, 1980

	1980 Million		1979 Million	
OFI LOANS	$771.1		$640.7	
PCA PARTICIPATION LOANS	$174.5		$149.7	
AQUATIC LOANS	$403.4		$249.9	
RURAL HOME LOANS	$2,049.5		$1,466.2	
Federal Land Banks		$2,018.6		$1,438.5
Production Credit Associations		$30.9		$27.7
RURAL ELECTRIC COOPERATIVES	$1,063.5		$823.0	

Other Financing Institutions
Federal intermediate credit banks (FICBs) are authorized to discount or purchase agricultural paper from commercial banks and other financing institutions (OFIs) which are significantly involved in agricultural lending, have a demonstrated need for access, can show sufficient financial stability, and can meet other requirements for eligibility under the Farm Credit Act of 1971.

Some 167 OFIs discounted with or were in a position to discount with the FICBs during 1980. On October 31, 1980, $771.1 million were outstanding, up 20.4 percent for the year. Dollar volume has been steadily rising since 1978, and annual growth rates reached a peak in March 1980, when commercial banks were experiencing severe liquidity problems.

Commercial Lender Participations
The PCA commercial lender participation program was created to provide commercial banks with a means of obtaining loan funds from the Farm Credit System without establishing a discount relationship with a FICB. The program is quite similar to the typical overline arrangement between a country bank and a city correspondent bank. The commercial bank takes part of each loan — generally up to the legal lending limit per borrower. The PCA, which generally has much higher lending limits to an individual borrower, makes the rest of the loan. It is up to the originating bank to collect principal and interest and to service the loan.

On October 31, 1980, $174.5 million was outstanding in participations, up 16.7 percent from the previous year. More than three-quarters of total outstandings are concentrated in the St. Paul, Wichita, and Omaha Districts.

In the spring of 1980, high interest rates and severe liquidity problems in many rural banks increased activity in this program. Loan volume in the program reached a peak in March and declined steadily throughout the remainder of the year.

Aquatic Loans
PCAs were allowed to extend the terms of loans to fishermen from 7 to 15 years following passage of an amendment to the Farm Credit Act in September 1978. Enactment of this amendment has resulted in a dramatic increase in PCA aquatic lending. In the year ended October 31, 1980, loans outstanding reached $403 million, which is a 60-percent increase compared to the previous year.

Rural Home Loans
Rural home lending, since it was authorized in the 1971 Act, has shown rapid growth. As of October 31, 1980, FLBs and PCAs had slighty over $2 billion outstanding. However, during 1980, rural home lending significantly slowed from the very rapid rates in the initial years of the program. Despite its generally fast growth, rural home lending represents only a small portion of total FLB and PCA loan volume, 5 percent and 0.2 percent, respectively.

Rural Electric Cooperative (REC) Loans
In the year ending October 31, 1980, the BCs had nearly $1.1 billion in loans outstanding to RECs, up 29 percent over a year ago. Nearly 97 percent of this amount is in the Louisville, New Orleans, and St. Paul Districts. The 77 REC loans outstanding represent 10.6 percent of the total BC loans outstanding. Lending to RECs increased substantially in the last 4 years, in response to the very large capital needs of rural electric generating and transmission cooperatives and the cooperative eligibility changes legislated by Congress in 1975.

Young Farmer Financing
The Farm Credit System continues to be a primary source of financing for young farmers (defined as those farmers under 35 years of age). A special survey of new PCA borrowers showed that loans made in which young farmers participated during 1979 accounted for more than 23,000, or 39 percent, of total PCA farm loans made. At the end of 1979, 116,449, or 24 percent, of all PCA farm loans outstanding involved young farmers.

Young farmers were the primary borrowers in 19,272 FLB farm loans made during 1979, nearly one-quarter of all FLB farm loans closed during the year. They received more than 16 percent of total farm loan volume. Additional numbers of young borrowers indirectly benefited from FLB loan programs as members of partnerships and corporations, even though an older borrower was identified as the primary borrower. However, it is not possible to determine how many young borrowers indirectly benefited in this way.

Financially Related Services
Credit life insurance has been offered to Farm Credit System borrowers for over 25 years. Crop hail insurance and electronic farm recordkeeping programs have served members for more than 10 years. Other financial related services offered include credit disability insurance, multiple peril crop insurance, equipment leasing, estate planning assistance, farm business counseling, income tax preparation and appraisal services.

FARM CREDIT SYSTEM LOAN QUALITY

Farm Credit System loan quality deteriorated slightly in 1980 but remained at a comparatively high level. Relatively low commodity prices early in the year, the run-up in interest costs, and the summer drought placed many producers in a cash flow squeeze. However, in the second half of the year, improved commodity prices aided those producers who had crops to sell. Insufficient time has passed for the full impact of events such as these to show up in loan quality data, and a complete assessment cannot be made at this time. With the improvement in most commodity prices later in the year, the number of producers at income extremes increased, revealing a wider than usual gap between those with incomes that rebounded and those who were still experiencing financial difficulties. The aggregate loan quality statistics do not accurately reflect this disparity.

The Farm Credit System takes pride in maintaining high loan quality and low loan losses while supporting the needs of American farmers. The System is aware of the need for caution during difficult periods such as these, to ensure that continued good service to farmers and ranchers is provided at the lowest possible cost.

Annually, a sample of the PCA's outstanding loans is examined to measure the quality of operating and intermediate-term loans made by PCAs. Each loan examined is placed in the following categories:

ACCEPTABLE LOANS — Loans of the highest quality, ranging down to and including those having significant credit weaknesses.

PROBLEM LOANS — Loans having serious credit weaknesses requiring more than normal supervision but believed to be collectible in full.

VULNERABLE LOANS — High risk loans still considered collectible but involving probability of loss in the event repayment from available sources does not materialize.

LOSS LOANS — Loans on which all or any portion is deemed uncollectible. These loans represent cases in which it appears that all or a portion of the borrower's total indebtedness, including any previous partial charge-off, will not be collected in full.

Important factors considered in classifying loans include:

1. The individual or entity (integrity and moral character, management ability, experience, etc.)
2. Financial position and progress
3. Repayment capacity
4. Loan purpose and basis of approval
5. Collateral offered or available as security

In addition, considerable weight is given to performance on previous or existing loans, both with the Farm Credit System and with other lenders. The results of this year's examination is provided in the following table.

Production Credit Associations
Summary of Loan Classifications*

	Acceptable *Percent*	Problem *Percent*	Vulnerable *Percent*	Loss *Percent*
1969	84.7	13.7	1.1	0.5
1970	84.8	13.5	1.1	0.6
1971	83.4	14.6	1.3	0.7
1972	84.5	13.8	1.2	0.5
1973	88.0	10.9	0.8	0.3
1974	88.3	10.5	0.8	0.4
1975	82.0	15.5	1.7	0.8
1976	81.7	16.1	1.4	0.8
1977	82.8	15.6	1.1	0.5
1978	85.6	13.4	0.7	0.3
1979	87.7	11.7	0.4	0.2
1980**	86.1	13.0	0.6	0.3

*% Dollar Volume (percentage based on sample classified)
**Preliminary

The percentage of PCA loans classified as "acceptable" dropped 1.6 percentage points in 1980, to 86.1 percent. The combination of vulnerable and loss loans was 0.9 percent, about the same as 1978 and considerably lower than the peak of 2.5 percent in 1975.

Other measures of credit conditions, including PCA collection, FLB repayment rates, PCA renewal and FLB refinancing rates, as well as FLB delinquency rates also showed minor stress. In 1980, PCA renewal and FLB refinancing rates measure the amount of PCA and FLB loans renewed relative to all loans made for a given period.

PCA collection rates and FLB repayment rates are calculated as loan payments by borrowers adjusted for annual growth in loans outstanding. Fluctuations largely occur because of changes in farm income and Government lending programs. PCA monthly collection rates in 1980 were about equal to the previous 3-year average, but showed considerable variation among districts. FLB repayment rates throughout 1980 were below their previous 3-year average. The increasing share of interest relative to principal in loan payments, fewer prepayments, and refinancing account for some of this. FLB delinquencies increased slightly but continued to be low in relation to loan volume. On June 30, 1980, 1.8 percent of all FLB loans made and 0.15 percent of total land bank loans outstanding were delinquent, compared to 1.7 percent and 0.15 percent the previous year.

PCA renewal rates reversed the gradual decline begun in 1978 and were higher in 1980 as demand for short-term credit was unusually high. FLB refinancing rates were slightly below the 1975-1978 period and about equal to 1979.

The two main uses of FLB agricultural loan funds are: purchase of real estate and refinancing long- and short-term debt. The growing number of farm transfers involving debt and the escalated cost of farm operations have greatly increased the need for both types of financing. The transfer rate for farm real estate and changes in real estate prices tend to move in the same direction as farm income. With lower net farm income and fewer land transfers in 1980, the percentage of FLB funds for real estate financing declined, while the percentage of funds used for refinancing FLB and other lenders' loans increased. Experience during the 1970s suggests that the share of FLB lending for farmland purchase will indeed decline through 1981.

Refinancing converts capital gains into cash. This is a particularly important financial tool for farmers during the times of insufficient cash flow. But refinancing can also be used to take advantage of realized equity gains as a basis of incurring additional debt to expand the farm operation. A third reason for long-term refinancing during 1980 may have been the substantial interest rate differentials between short and long-term credit.

Refinancing of FLB and other lenders' loans increased to 53.6 percent in the third quarter of 1980, the highest level in more than 5 years. It was largely the result of a big jump in FLB refinancing of short-term loans held by others.

Loan Losses
Net Acquired Property Income For Year Ended June 30

	1978		1979		1980	
	Amount of Net Losses*	% Loans Outstanding	Amount of Net Losses*	% Loans Outstanding	Amount of Net Losses*	% Loans Outstanding
Banks for Cooperatives	$10,508	.17	$322	.005	$11,531	.152
FICB-PCA	$19,247	.13	$5,057	.03	$10,195	.049
FLB-FLBA	$4,742	.01	$1,156	.004	$750	.002

*Thousands of dollars

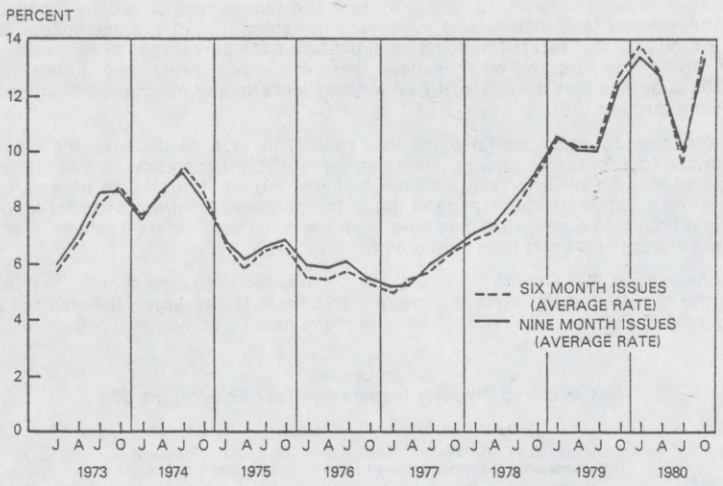
Year-to-year comparisons of actual loan losses are not particularly reliable indicators of either recent credit practices or general economic conditions facing borrowers. Very often losses show up long after the events which caused them took place. Further, in the BC system, the loan volume concentration by a smaller number of borrowers can result in large year-to-year changes unrelated to current credit practices or economic conditions. The main value in examining loan losses lies in developing an overall picture of the loan record in all three systems.

BC loan losses were $11.5 million for the year ended June 30, 1980. They represented 0.15 percent of loans outstanding on that date.

The FICBs/PCAs lost $10.2 million (0.05 percent of loans outstanding) for the year ended June 30, 1980. During the same period, FLBs/FLBAs lost $750,000 (0.002 percent of loans outstanding).

INTEREST RATES

AVERAGE QUARTERLY INTEREST RATE ON FARM CREDIT SYSTEM 6 AND 9-MONTH BONDS

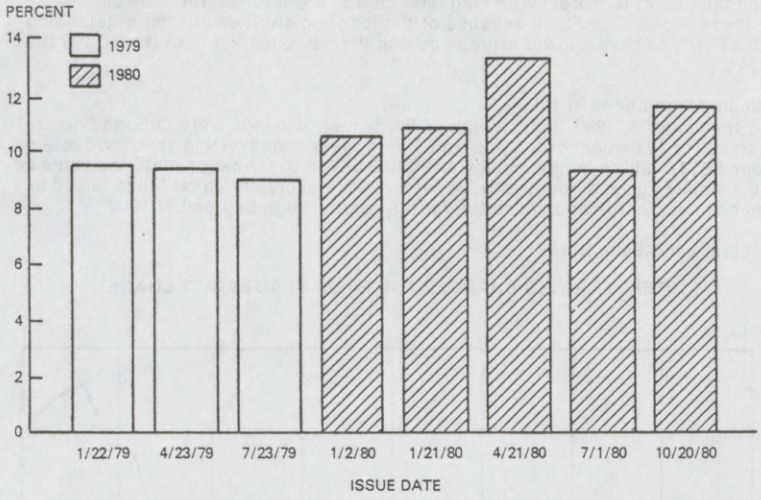


The long-standing high credit rating of Farm Credit securities has enabled the System to raise funds on a continuing basis in the capital markets at competitive rates. The System is therefore able to provide "sound, adequate, and constructive credit," on a consistent basis to farmers and their cooperatives at competitive rates of interest.

Funds for Farm Credit System loans will continue to be available through sales of bonds and discount notes in national money markets, although interest rates will continue high and volatile as demand for funds remains strong and current monetary policy, designed to fight inflation, continues in effect. This will place a premium on banks' management of their bond portfolios. However, the System's variable interest rate combined with its frequently scheduled bond and discount note offerings should cushion rate volatility to borrowers. The current financial market environment requires continued diligence to assure that credit quality and financial management in the Farm Credit System continues in a way that maintains the confidence of investors.

Farm Credit System variable interest rates are based on the average cost of bonds outstanding, rather than on the interest cost of the latest issue sold. Thus, rising interest costs of recently offered securities are averaged in with lower cost securities already in the portfolio. During periods of falling rates, the cost of new bonds are averaged in with the higher cost of the existing portfolio. New borrowers and old borrowers pay the same rate. Conversely, during periods of rising

INTEREST RATES ON FARM CREDIT SYSTEM 5 YEAR BONDS



interest rates, the System can usually offer borrowers credit at rates below those of other agricultural lenders.

Credit Restraints in 1980

Interest rates during 1980 fluctuated widely as the Federal Reserve Board implemented its policy of controlling the money supply instead of interest rates. Interest rates were permitted to fluctuate with market forces while the Federal Reserve put less emphasis on stabilizing the Federal funds rate on a day-to-day basis. At the same time, the Federal Reserve was attempting to limit growth in the money supply. The result was high and fluctuating interest rates.

Furthermore, for the first time since its passage in 1969, the Credit Control Act of 1969 was invoked by the Federal Reserve upon order by the President. Controls were in effect from March through July. The result was that economic growth in the second quarter plunged, sending short-term interest rates, as measured by the prime, from a high of 20 percent to a low of 11 percent in the third quarter. Rates paid on the Farm Credit System's 6-month issue fell from a high of 17.25 percent in April to a low of 7.9 percent in July.

As a result of credit restraints, in the early months of 1980, some commercial banks in agricultural areas suffered a liquidity squeeze. Demand for Farm Credit System loans increased at that time.

During the first 3 months of 1980, FCS lending volume increased by 21 percent, FLB volume by 40 percent, and BC volume by 38 percent over the 1979 period. Interest rate differences and unavailability of credit at commercial banks may

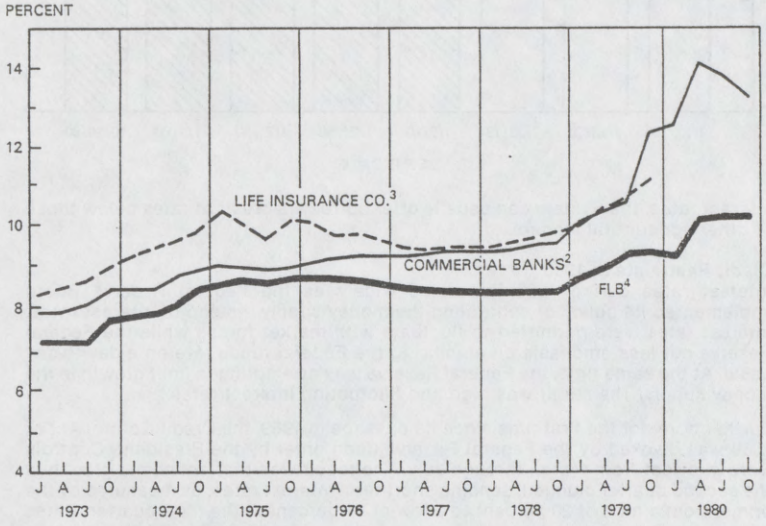
have contributed to these increases. Additionally, many borrowers were refinancing their short-term debt with long-term debt at lower long-term rates obtainable at these banks. The FLBs, because of the longer maturities of their outstanding bonds tend to have a lower average cost in the rising market than the BCs or the PCAs.

Funding Operations in 1980

On November 3, 1980, $58.7 billion of the System's bonds were outstanding, an increase of 20 percent over a year ago. For the year ended on this date, the System raised $10.0 billion in new money and $40.6 billion to refinance maturing issues. New money raised amounted to 2.4 percent of total credit market funds raised by financial and nonfinancial sectors for the year through September 1980.

Federal Land Bank Rates

INTEREST RATES CHARGED FOR FARM REAL ESTATE LOANS[1]



[1]AVERAGE RATES CHARGED BEGINNING OF QUARTER

[2]MINNEAPOLIS FEDERAL RESERVE DISTRICT

[3]NO DATA AVAILABLE FOR 1980

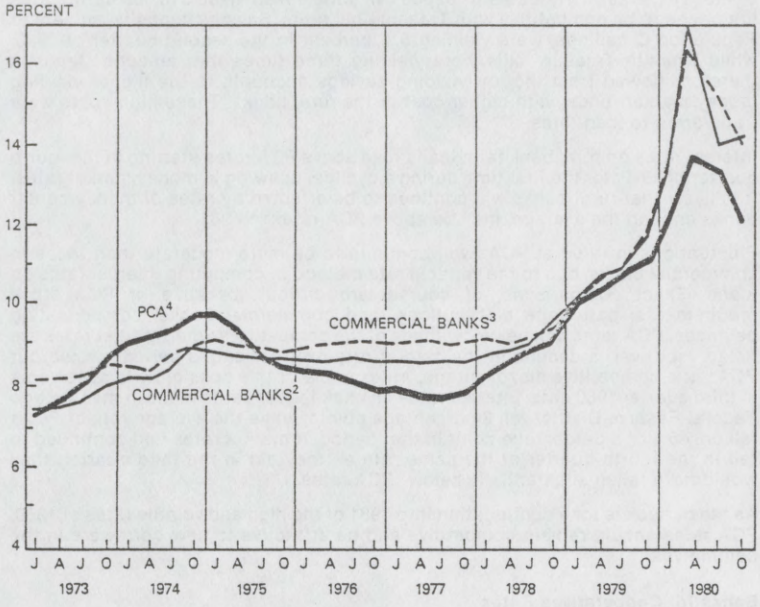
[4]EXCLUDES STOCK PURCHASES AND OTHER FEES

FLB rates will continue to rise in early 1981, as lower cost bonds are replaced by those priced at current rates. About 14 percent of the portfolio will be replaced, and the average cost of bonds will rise at least 0.5 percent. On December 1, 1980,

the average rate on FLB loans was 10.3 percent, while a year earlier rates had been 9.4 percent. The average cost of land bank outstanding bonds was 9.7 percent in 1980 versus 8.7 percent in 1979. By contrast, the cost of the 6-month issue priced on November 25, 1980, was 15.3 percent, or 3 percentage points above the yield on a similar issue sold a year ago. When market interest rates on new issues moved up in the second quarter of 1980, some land banks compensated for their low rates by placing a surcharge on new loan fees. In some cases, new loan fees reached as high as 8 percent. When market rates eventually subsided, the surcharges were partially removed. The land banks, however, continued to grapple with the problem of increased volume arising from interest rate differentials on new loans.

Production Credit Association Rates

INTEREST RATES CHARGED FOR FARM NONREAL ESTATE LOANS[1]



[1]RATES CHARGED BEGINNING OF QUARTER

[2]CHICAGO FEDERAL RESERVE DISTRICT FEEDER CATTLE LOANS

[3]MINNEAPOLIS FEDERAL RESERVE DISTRICT NONREAL ESTATE FARM LOANS

[4]EXCLUDES STOCK PURCHASES AND OTHER FEES

PCA rates respond more rapidly to interest rate changes. Nearly 40 percent of the portfolio will roll over during the first one-third of 1981, causing an increase in average FICB money cost of over 0.8 percent.

PCAs average charge to borrowers on October 1, 1980 was 12.1 percent compared to 10.9 percent on October 1, 1979. The average cost of the FICB bond portfolio, which was 9.8 percent in 1979, had increased to 10.73 percent by October 1, 1980.

In contrast to the high and volatile rates on agricultural production loans at commercial banks, PCA rates in 1980 were relatively stable. The quarterly average fluctuated from 11 percent in the fourth quarter of 1979 to a high of 13.8 percent in the second quarter of 1980. The interest rate range for agricultural loans made by commercial banks was 11.7 percent to 17 percent for the same period. Some rural commercial banks in the north central region of the Nation were short of funds for loan growth. Formerly, rural banks were cushioned from high money market rates in periods of credit expansion by a reserve of low cost, fixed-interest savings deposits. However, this source of local funds has dried up since the introduction of money market certificates of deposit in June 1978. These $10,000 certificates are priced to be competitive with Treasury bill rates. Savings deposits, subject to Regulation Q ceilings, were yielding 5¼ percent in the second quarter of 1980, while 6-month Treasury bills were yielding three times that amount. Deposits therefore flowed from the low-yielding savings accounts to the higher yielding money market funds, with higher cost to the rural banks. These high costs were transferred to loan rates.

Interest rates on rural bank farm loans rose above PCA rates starting in the fourth quarter of 1979, for the first time during a cyclical upswing in money market rates. It is likely that rural banks will continue to be affected by rates of money center banks and, on the average, may be above PCA rates in 1981.

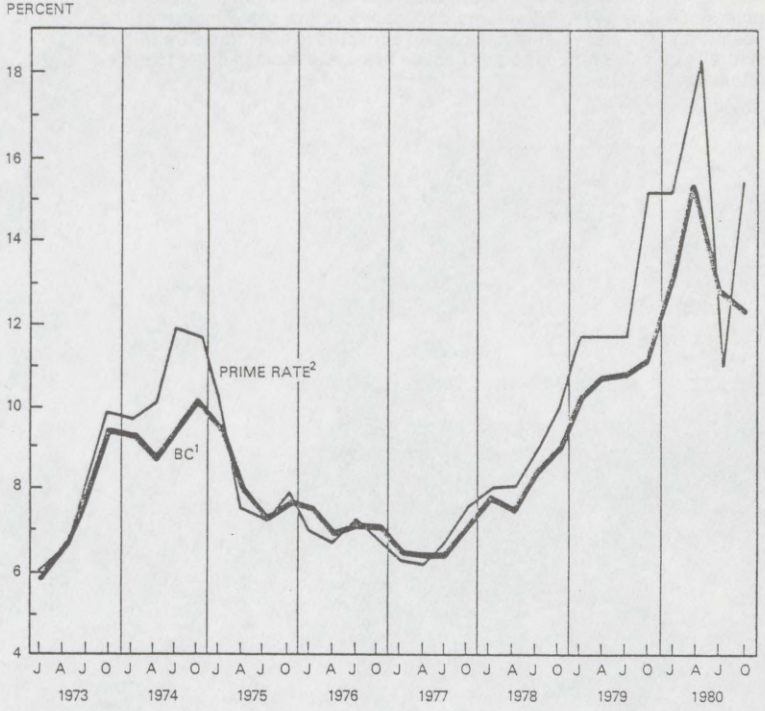
Fluctuations in rates at PCAs will continue to be more moderate than those in commercial banks, due to the variable rate method of computing interest rates on loans. Exact comparisons, of course, are difficult because of PCA stock requirements, patronage distributions, and commercial banks' compensating balances. PCA rates can be below those of the competitors when market rates are rising. However, a decline in the market rate over prolonged periods would put PCAs at a competitive disadvantage. An example of this possibility is observable in third quarter 1980 data. Interest rates on bank feeder cattle loans in the Chicago Federal Reserve District fell 3 percentage points, while the average rate at PCAs fell only 0.4 of a percentage point in that period. If market rates had continued to fall in the fourth quarter at the same rate as they did in the third quarter, they would have fallen substantially below PCA rates.

As the outlook is for a continuation into 1981 of the high and volatile rates of 1980, PCA rates should remain competitive and be attractive to new borrowers in the coming year.

Banks for Cooperatives Rates

The banks for cooperatives rates also respond quickly to changes in market rates. Nearly 40 percent of the portfolio will mature in the first 4 months of 1981 and will be replaced at rates which will increase the average portfolio cost at least 1.0 percent. The average cost of BC loans as of December 1, 1980, was 14.0 percent,

INTEREST RATES CHARGED BY BANKS FOR COOPERATIVES
COMPARED TO PRIME RATE



[1]SEASONAL RATE CHARGED BEGINNING OF QUARTER, EXCLUDES STOCK PURCHASES AND OTHER FEES

[2]AVERAGE WEEKLY RATE FIRST WEEK: SECOND MONTH OF QUARTER

while the cost of outstanding bonds in the BC portfolio was 11.3 percent. This contrasts with rates of a year ago which were 12.8 percent and 11.1 percent, respectively.

The high and volatile interest rates of 1980 were transmitted to BC borrowers at a faster rate than to borrowers at the PCAs or FLBs. BC rates in the second quarter rose by 2.44 percentage points, while the prime rate rose only a little faster — by 3.14 percentage points. The BCs relatively short maturity of approximately 16 months, permits bond portfolio costs to be transmitted to loan rates quite rapidly. Furthermore, as the BCs compete for the loan business of their largest borrowers directly with money center banks and commercial paper offered in the open

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market, they have to react rapidly to money market rate changes. The BCs have to respond as quickly on the way down as on the way up or loan volume will drop. For example, in June of 1980 the average rate of BCs rose above the prime rate and for the first time since July 1979, BC volume declined over the same month of the previous year. With high and volatile rates again expected in 1981, the BCs will be under pressure to quickly respond to any decline in market rates in order to maintain market share.

FARM CREDIT ADMINISTRATION

Responsibilities Of The Federal Farm Credit Board
The Federal Farm Credit Board is the top policy-making body for the Farm Credit Administration and the cooperative Farm Credit System. The Board establishes regulations to implement the laws under which the System operates and also recommends legislative actions needed to fulfill the System's role, as established by Congress, of meeting the credit and related needs of the System's borrowers.

Members of the Federal Farm Credit Board, as all other boards in the System, serve on a part-time basis. Twelve members of the Board, one from each Farm Credit district, are appointed by the President of the United States with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A thirteenth member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The law provides that, in making his appointments to the Board, the President must consider the public interest, the welfare of farmers, a fair representation from the three banking groups of the System, and give special consideration to persons who are experienced in cooperative agricultural credit. Through a series of polls, three candidates are nominated for each vacancy on the Federal Farm Credit Board — one each by the Federal land bank associations, production credit associations, and cooperatives holding stock in the district's bank for cooperatives.

The present members of the Federal Farm Credit Board are, as follows:

Federal Farm Credit Board	District Represented
Dwight L. Tripp, Maine	Springfield
William D. Wampler, Virginia	Baltimore
David C. Waldrop, South Carolina	Columbia
Marvin R. Bradley, Indiana	Louisville
Owen Cooper, Mississippi	New Orleans
John D. Naill, Jr., Arkansas	St. Louis
Jewell Haaland, Minnesota	St. Paul
Ralph Raikes, Nebraska	Omaha
Ralph N. Austin, Colorado	Wichita
Wm. Dale Nix, Texas	Texas
Edgar C. Rutherford, California	Sacramento
George W. Lacey, Montana	Spokane
(Vacant)	Secretary's Appointee

Farm Credit Districts
In each of the 12 Farm Credit districts, there is a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. The Central Bank for Cooperatives is located in Denver, Colorado. The following map shows the states served by each district. Also listed is the city and zip code for each district headquarters.

Farm Credit Administration Staff
Donald E. Wilkinson, Governor
C. T. Fredrickson, Senior Deputy Governor
Kenneth J. Auberger, Deputy Governor, Office of Examination

FARM CREDIT BANKS AND TERRITORY SERVED BY EACH

The Farm Credit Banks of Springfield
Springfield, Massachusetts 01101
Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York and New Jersey

The Farm Credit Banks of Baltimore
Baltimore, Maryland 21203
Pennsylvania, Delaware, Maryland, Virginia, West Virginia, District of Columbia, and Puerto Rico

The Farm Credit Banks of Columbia
Columbia, South Carolina 29202
North Carolina, South Carolina, Georgia, and Florida

The Farm Credit Banks of Louisville
Louisville, Kentucky 40202
Ohio, Indiana, Kentucky, and Tennessee

The Farm Credit Banks of New Orleans
New Orleans, Louisiana 70130
Alabama, Mississippi, and Louisiana

The Farm Credit Banks of St. Louis
St. Louis, Missouri 63166
Illinois, Missouri, and Arkansas

The Farm Credit Banks of St. Paul
St. Paul, Minnesota 55101
Michigan, Wisconsin, Minnesota, and North Dakota

The Farm Credit Banks of Omaha
Omaha, Nebraska 68102
Iowa, Nebraska, South Dakota, and Wyoming

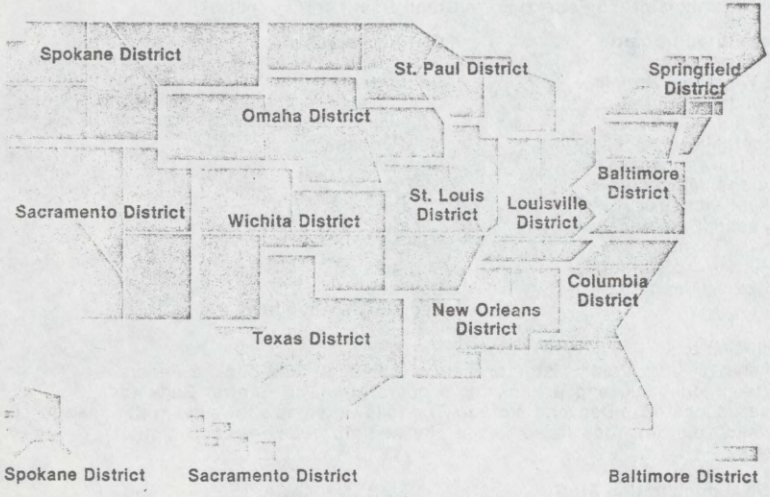
The Farm Credit Banks of Wichita
Wichita, Kansas 67202
Oklahoma, Kansas, Colorado, and New Mexico

The Farm Credit Banks of Texas
Houston, Texas 77002
Texas

The Farm Credit Banks of Sacramento
Sacramento, California 95825
California, Nevada, Utah, Arizona, and Hawaii

The Farm Credit Banks of Spokane
Spokane, Washington 99220
Washington, Oregon, Montana, Idaho, and Alaska

Central Bank for Cooperatives
Denver, Colorado 80111
Services District Banks for Cooperatives

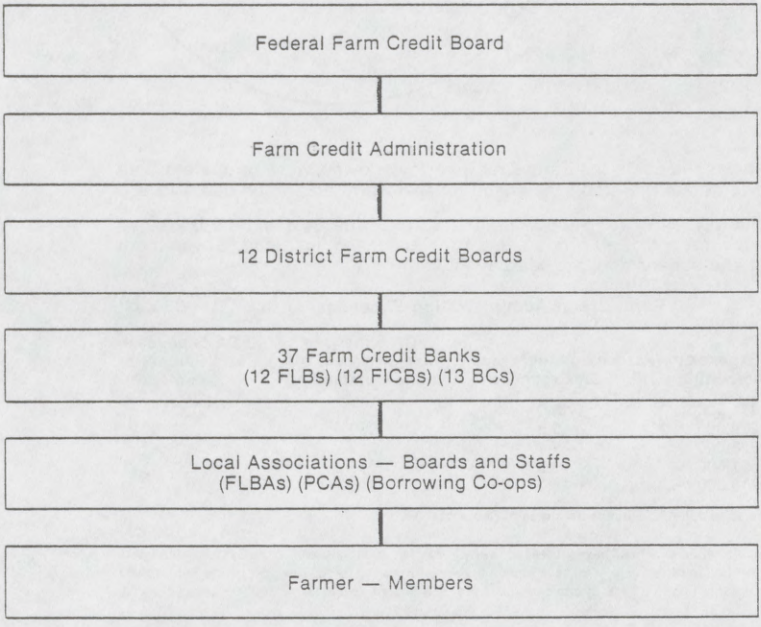


Albert J. Haslebacher, Deputy Governor, Office of Supervision
Larry H. Bacon, Deputy Governor, Office of Administration
Frederick R. Medero, General Counsel
B. Ben Sunbury, Director, Congressional Affairs

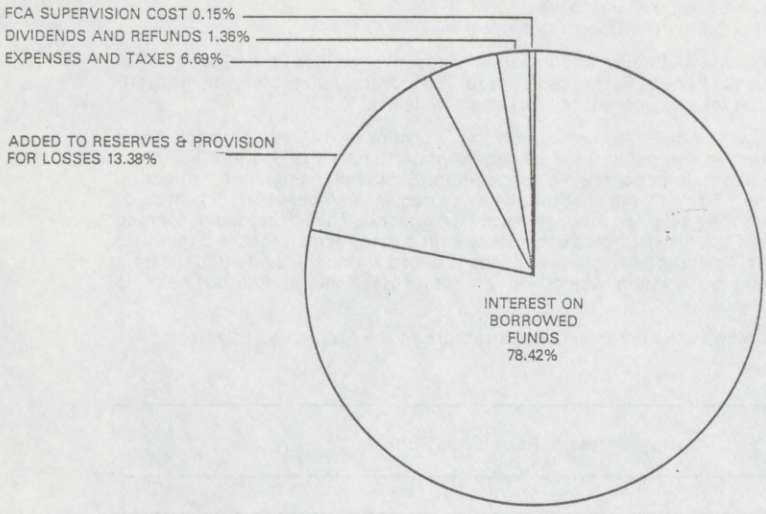
The Farm Credit Administration's chief executive officer, the Governor, is appointed by the Federal Farm Credit Board. The Governor, together with his staff, is responsible for carrying out the Board's policies.

The Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest. Each institution of the System is a user-owned and controlled cooperative association. Basic responsibility for directing and managing Farm Credit institutions is vested in member-elected boards of directors and their selected management. FCA supervision is designed to oversee the actions of the district boards to ensure sound management of the banks and associations. Operating decisions are decentralized within the System to the user level as long as System objectives are respected and sound business is conducted.

Displayed below is the organizational structure of the Farm Credit System.



FARM CREDIT SYSTEM COSTS



This chart shows the costs the Farm Credit borrower-owners pay to operate their System and to obtain the credit they need for their farm and ranch operations.

The chart illustrates the self-supporting character of the System. The borrower-owners pay for the borrowed funds and all the expenses, including Government examination and supervision, provided by FCA.

Farm Credit Administration Expenses

Year	FCA Expenses ($ Amount)	Percentage Increases in FCA Expenses	FCA Expenses ...as a Percent of Loans Outstanding	FCA Expenses ...as a Percent of Loans Made
1976	7,271,000*	+13.0	.021	.022
1977	8,239,000	+13.3	.020	.022
1978	8,828,000	+7.1	.019	.021
1979	10,551,000	+19.5	.019	.020
1980	11,718,000	+11.1	.018	.017

*1976 figures are as of June 30; other years are as of September 30.

Farm Credit Administration expenses have increased yearly. However, in comparison to the System's loan activity, Farm Credit Administration expenses have shown a slight downward trend. The cost of the Farm Credit Administration amounts to only 15/100 of one percent of the total System expenses at the year ended June 30, 1980.

FARM CREDIT ACT AMENDMENTS OF 1980

Last year Congress passed the Farm Credit Act Amendments of 1980 (P.L. 96-592), which permits the Farm Credit System to improve its services to borrowers. The Farm Credit Administration is in the process of developing regulations to implement the new public law, which was signed by President Carter on December 24, 1980.

A brief summary of P.L. 96-592 is provided below.

Cooperative Eligibility — Lowers the farmer-member eligibility requirement for bank for cooperative (BC) financing to 60 percent of voting members for rural electric, telephone, utility, service, and certain local supply cooperatives. Other cooperatives must satisfy a requirement of 80 percent.

Federal Land Bank Loan Limitations — Allows Federal land banks (FLBs) to make loans of up to 97 percent of the appraised value of the real estate security where a guarantee is provided by a governmental unit.

Processing and Marketing Loans — Authorizes production credit associations (PCAs) and FLBs to make processing and marketing loans to bona fide farmers, ranchers and aquatic producers who supply at least 20 percent of the throughput to be processed or marketed, or such higher percentage as may be set by a Farm Credit district board.

Banks for Cooperatives Export Financing — Authorizes BCs to offer basic financial services to cooperatives for export and import transactions of cooperatives to facilitate international trade and allow BCs to engage in international banking activities which facilitate agricultural exports and imports of farmer cooperatives.

Other Financing Institutions — Enhances the opportunities of other financing institutions (OFIs) to utilize the financial services of the Federal intermediate credit banks (FICBs) by:

1. Permitting the FICBs to discount for OFIs all of the types of loans, for all the purposes, that PCAs are authorized to make.
2. Providing statutory assurances that the FICB discount privilege is made available to eligible OFIs.

Loan Participations — Authorizes the FLBs to participate in loans with lenders outside the System, PCAs to issue participation certificates to other lenders, and all System institutions to invest and/or participate in loans of other System institutions.

Aquatic Lending — Authorizes, with respect to the production and harvesting of aquatic products:

1. FLBs to make real estate mortgage loans to producers or harvesters of aquatic products.
2. FLBs, FICBs, and PCAs to provide to borrower/members and applicants financially related services appropriate to their aquatic operations.
3. Federal intermediate credit banks to discount aquatic loans of other financial institutions outside the Farm Credit System.

4. Cooperatives engaged in furnishing aquatic business services to be eligible to borrow from the BCs.

Lease Financing — Authorizes BCs to finance domestic leasing, including leverage leasing transactions between U.S. farmer or aquatic cooperatives and other domestic parties.

Ten-Year PCA Loans — Authorizes district boards to increase the maximum term of non-aquatic PCA loans to 10 years.

Young Farmers — Requires FCA to provide annual reports to Congress on FLB and PCA programs to serve young, beginning and small farmers.

Insurance — Clearly establishes that associations may sell, on an optional basis, credit or term life and credit disability insurance and other insurance necessary to protect the members' farm or aquatic unit, but limited to hail and multiple peril crop insurance, title insurance, and insurance to protect the facilities and equipment of aquatic borrowers.

Incorporation of System Service Entities — Authorizes the Farm Credit Administration (FCA) to charter corporations which perform service and finance functions which have been previously authorized by the Congress for Farm Credit institutions.

Congressional Oversight — Provides for a 10-year sunset of the provisions authorizing financing of export transactions by BCs and clarifying the authority of FICBs to discount the loans of OFIs. Authorizes a two-House legislative veto of regulations implementing the OFI and international financing authorities. Requires FCA to submit proposed regulations to the Agriculture Committees 30 days prior to their publication in the *Federal Register* and requires an evaluation by the Comptroller General of the programs and activities authorized by the bill.

Consultation with Other Federal Agencies — Requires FCA to consult, on a regular basis, with the Secretary of the Treasury and the Board of Governors of the Federal Reserve System.

Loss Sharing — Authorizes all Farm Credit institutions to enter into general loss sharing agreements with other Farm Credit institutions and Farm Credit bank systems to enter into such agreements with each other.

State Interest Rate Limitations — Clarifies that lending by Farm Credit System institutions is exempt from State-imposed interest rate limitations.

Patronage Refunds — Authorizes the FLBs and Federal land bank associations (FLBAs) to pay patronage refunds.

Redefine Equity — Amends the Farm Credit Act of 1971 to define "equity" in the land bank system as capital stock and other classes of equity and surplus, as may be approved by the FCA.

Extension of System Services to Virgin Islands — Permits the inclusion of the U.S. Virgin Islands in a Farm Credit district if authorized by the Federal Farm Credit Board after the feasibility of doing so is established.

Earnings and Reserves — Removes the limitations in current law on BCs and FICBs transferring more than 25 percent of net savings to allocated surplus.

District Director Election Process — Requires that the list of candidates for the position of elected district director consists of two nominees receiving the highest number of votes rather than three nominees as had been required.

Authority to Delegate — Authorizes a bank president to delegate his position on the finance committee or subcommittee to a member of his staff.

Federal Farm Credit Board Compensation — Increases the daily rate of compensation of the Federal Farm Credit Board to the daily equivalent of the rate prescribed for Federal employees at the grade GS-18.

FCA Quarters — Allows FCA to establish its headquarters in metropolitan Washington, D.C. and to sell or otherwise dispose of any interest in property leased or acquired.

MONDAY, MARCH 2, 1981.

OFFICE OF THE INSPECTOR GENERAL

WITNESSES

ROBERT E. MAGEE, ACTING INSPECTOR GENERAL
GERALD W. PETERSON, ACTING ASSISTANT INSPECTOR GENERAL FOR AUDITING
DELMAS R. THORNSBURY, DIRECTOR, MANAGEMENT AND BUDGET STAFF, OIG
ROBERT E. SHERMAN, ACTING DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. NATCHER. The Committee will come to order.

We take up at this time the Office of the Inspector General. We have before the Committee Mr. Robert E. Magee.

Mr. Magee, it is a pleasure to have you before the Committee. Tell us who you have with you.

Mr. MAGEE. Thank you.

I am the Acting Inspector General of the Department. My regular capacity is that of the Assistant Inspector General for Investigations.

I have with me Gerald W. Peterson, Acting Assistant Inspector General for Auditing; Delmas R. Thornsbury, our Office of Inspector General, Director of Management and Budget Staff, and Bob Sherman, who is the Department's Acting Deputy Budget Officer.

Mr. NATCHER. Thank you, sir.

Now Mr. Magee, we have had an opportunity to examine your statement. You have a good statement. With your permission we will place your statement in the record in its entirety and go right to the questions.

Mr. MAGEE. That will be very satisfactory, Mr. Chairman.

[CLERK'S NOTE.—The Explanatory Notes appear on pages 431 through 449. Statement of Mr. Magee and the biographical sketches follow:]

For Release Only
by the House Committee
on Appropriations

OFFICE OF THE INSPECTOR GENERAL

Statement of Robert E. Magee, Acting Inspector General, before the House Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies.

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today.

General Comments

Perhaps the most significant development during this past year has been the assumption by the Office of the Inspector General of important new or additional responsibilities. While the Inspector General Act has been in effect for almost two-and-one-half years, and the Department of Agriculture has had the Inspector General concept in effect for almost 19 years, recently both Congress and the Office of Management and Budget have looked more frequently to the Inspector General as the first line of defense in their efforts to prevent fraud, waste, and abuse in Government programs.

We are called upon increasingly to provide reports and testimony on the effectiveness and deficiencies of the Department's programs and internal Administration systems. In addition, assignment of our audit and investigative resources are, to a greater extent, being directed by legislation and regulations. For example, in its recent report on the Supplemental Appropriations and Rescission Bill of 1980, the Congress included requests that the Office of the Inspector General include in our semiannual report actions taken by the Department to improve debt collection, information on the amount of money due the Department, overdue, and written off as uncollectible.

Further, we have to submit to Congress an evaluation of the Department's progress in instituting effective management controls and improving accuracy

and completeness of the data provided to the Federal Procurement Data System. The Congress has requested us to make periodic reports on the effect of the Department's procurement agenda in improving competition for Government procurement dollars, and to conduct for the next two fiscal years vigorous audits of year-end contract obligations.

In addition to new responsibilities such as these imposed by Congress, the Office of Management and Budget also has made numerous requests of the Offices of the Inspectors General. The recent OMB directive which has the most impact on the work of this Office is Attachment P to OMB Circular A-102. This directive requires that State and local governments that receive Federal grant assistance funds arrange for a single organizationwide financial and compliance audit at least once every two years. Since we have direct oversight responsibility for a significant number of such audits and will be reviewing all other audits of entities which receive any funds from the Department, the potential effect on our operations by Circular A-102 cannot be overestimated. We anticipate that the implementation of that circular will become one of our highest audit priorities in 1981 and 1982.

All of these new requirements are important and address significant areas of fraud, waste, and abuse. They do, however, have a major effect on the use of OIG resources and the desired flexibility in the assignment of auditors and investigators.

The Semiannual Report to Congress continues to be one of the most important ways of focusing attention of Departmental managers to deficiencies within their programs. We have also used the report to make recommendations to Congress for legislative action which we believe will improve program efficiency and control of fraud and abuse. We have given particular attention

in our last four semiannual reports to suggestions aimed at deterring error and punishing fraud and abuse in the Food Stamp Program. As noted in the House Agriculture Committee report on the Food Stamp Act of 1980, "...the most significant portions of the bill, ...are the 15 basically bipartisan measures that deal with reducing error, fraud and abuse...Taken as a whole, they clearly constitute part of a continuing effort to save program money for the use of those who need it most by denying it to the unentitled." The Food Stamp Act of 1977 and the Food Stamp Act Amendments of 1979, also show a clear congressional concern with providing the necessary authorities to improve the program. We have supported and recommended many of these legislative actions.

Audit and Investigative Results

In fiscal year 1980 our activities resulted in 652 criminal indictments. In the past three years indictments have increased dramatically. There were 303 indictments resulting from our investigations in 1978 and 567 in 1979. The overall conviction rate on cases remains at or above 90 percent and our cases continue to be those involving serious offenses such as Food Stamp trafficking, corruption of Department employees and State and local employees administering Department programs, loan fraud and serious violations of the Federal Meat Inspection Act. During fiscal year 1980 OIG work identified over $72 million in recoveries and collections, savings, erroneous payments, management improvements, incorrect loan amounts, penalties, fines and judgments.

The greatest proportion of our resources continues to be devoted to those programs we consider to be most susceptible to fraud, waste, and abuse. Forty-three percent of our audit and investigative efforts were expended on

programs of Food and Nutrition Service; 21 percent in the Farmers Home Administration; and 12 percent in the Agricultural Stabilization and Conservation Service. For example, during the past year we have continued our heavy audit and investigative work in the Food Stamp Program. In 1980 we issued 125 Food Stamp audit reports. Our emphasis continues to be in those program areas with the largest Food Stamp population. OIG also issued 684 investigative reports and obtained 407 indictments for Food Stamp offenses. Our investigative efforts continue on organized criminal elements: wholesalers and retailers trafficking in food stamps; counterfeiting operations; large issuing-office thefts; and frauds involving trafficking of Authorization to Participate Cards.

In 1980 we issued 193 audit reports related to FmHA. We issued 273 investigative reports which resulted in 78 indictments, 39 convictions, fines of $28,000 and $1.4 million in recoveries and collections. We also devoted a considerable amount of audit and investigative resources to the FmHA Business and Industrial Loan Program. During the year we released an audit on decisionmaking in the Business and Industrial Loan Program; continued the work on the nationwide audit of the program; and recently completed an audit survey of "FmHA Business and Industrial Loans for Alcohol Fuel Projects."

As the other Offices of the Inspectors General have become more active, the benefits of auditing program issues which cross governmental agency lines is becoming more apparent. During the last year we have engaged in joint audit work with the General Services Administration, Housing and Urban Development, Department of Labor, Health and Human Services, the Community Services Administration and the Small Business Administration. These audits have covered such issues as overlapping funding of child care programs, debarment

procedure for potential contractors, space and furniture acquisition, and management of disaster programs.

We have also continued to evaluate and enhance our own effectiveness and efficiency. Our internal inspection program has been expanded and strengthened during the past year. In both Auditing and Investigations we have expanded program coverage by using statistical sampling and increased use of the computer. We have also shifted our audit emphasis to nationwide program audits, which demonstrate with greater accuracy the depth and scope of endemic problems. On the investigative side, more streamlined case management coupled with early collaboration with U.S. Attorneys has enabled us to spend more time on criminal cases with high prosecutive merit.

These techniques and other efforts aimed at increasing our efficiency, I believe, have been reflected in our results, and have helped to attain the basic mission and objectives we have established for the office: to prevent and detect fraud in the Department; to assure the integrity of Department employees; and to avoid dollar losses in the administration of the Department's programs.

FY 1982 Budget Requirements

Our budget requirement for FY 1982 is $43,535,000--an increase of $3,319,000 over FY 1981. It includes increases of: $173,000 for annualization of the FY 1981 pay increase; $75,000 for restoration of the one-time Congressional cut due to last year's hiring freeze; $968,000 for increased operating costs; $800,000 for ADP equipment and training; and $1,303,000 for additional staff to carry out the new functions and added responsibilities of the agency.

Since the enactment of the 1978 Inspector General Act, several new functions and responsibilities, as stated previously, have been imposed on OIG by OMB, GAO, and the Congress. OMB Circulars A-102 (single audit of State and local governments) and A-110 (single audit of non-profit organizations) require each State and local government, and each Federally assisted non-profit organization that receives Federal assistance to have a nonfederal audit at least once every two years. OMB Circular A-76 (comparative cost analysis: in-house versus contract) requires that any decision to provide commercial products or services in-house be supported by a comparative cost analysis. OMB Circular A-71 (security of Federal automated information systems) requires periodic OIG audits of the adequacy of security safeguards of all sensitive computer applications. Another OMB directive requires the agency to insure that end-of-year contract and procurement actions are necessary. Auditing participation is also required with the preparation of the Semiannual Report to the Secretary and Congress and in the process of reviewing existing and proposed legislation and regulations. We are requesting $910,000 for additional staff to accomplish this work.

New investigative responsibilities to carry out the provisions of the Act effectively have required the reassignment of considerable investigative resources. These include the establishment of an employee complaint system (Hotline) and the personnel to follow through on these complaints at our regional offices, and fraud vulnerability surveys of the myriad of USDA programs. Investigative participation is also required in the preparation of the Semiannual Report to the Secretary and Congress, and in the review of existing and proposed legislation and regulations as required by the Act. We are requesting $393,000 for additional staff to accomplish this work.

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Each year more and more USDA functions and program support activities are automated and old automated systems are connected to the new technologies. In our effort to provide USDA management with the kind of information necessary to properly administer USDA programs, we must keep abreast of changing ADP technologies and equipment. Use of new ADP techniques and systems will assist our auditors in reviewing audit areas not considered feasible previously. Therefore, the audit scope, depth, and turnaround time can be improved without increases in audit staff. We are requesting $800,000 additional funding to expand OIG's capabilities in the use of computers and increase our use of new ADP techniques in the Federal audit community.

Our FY 1982 budget includes $968,000 to offset increased agency costs for GSA space rental, postage, FTS telephone usage, and Office of Workers' Compensation Programs (OWCP) costs.

At this time, I will be glad to answer any questions the Committee may have.

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BIOGRAPHICAL SKETCH OF ROBERT E. MAGEE

Robert E. Magee joined the Department of Agriculture in 1966 following 22 years active duty with the United States Army where he served in various field and headquarters assignments with the Criminal Investigation Division and in other military police duties.

In USDA he has been a Special Agent and Regional Director in their Southeast Regional Office, a Staff Supervisor and Chief Inspector at Washington Headquarters, and acted as Director of the Office of Investigation from January 1978. He assumed his present position, Assistant Inspector General for Investigations, when the Office of Investigation became a part of the new Inspector General's office under the Inspector General Act of 1978.

Mr. Magee was designated Acting Inspector General on January 27, 1981.

BIOGRAPHICAL SKETCH OF DELMAS R. THORNSBURY

Mr. Thornsbury was born in Jolo, West Virginia. Reared in the coal fields of Southern West Virginia, he moved to the Washington, D.C. area in 1963 where he began working for the Department of Agriculture. He worked for the Office of Information until 1965 when he entered military service with the U.S. Army Security Agency. In 1967 he returned to the Office of Information as an Administrative Assistant. From 1971 to 1973 he was an Administrative Assistant with the Economic Research Service. During this time he received his AA Degree from the Northern Virginia Community College and is working through the Extension Office of the University of Virginia for his degree in Business Administration. Mr. Thornsbury served as Administrative Officer of the Farmer Cooperative Service from 1973 to 1979. He joined the Office of the Inspector General in February 1979 as Budget Officer and was appointed to his present position of Director, Management and Budget Staff in January 1981.

He is married and lives in Burke, Virginia with his wife Debbie and daughter Melanie.

MAJOR INVESTIGATIONS DURING FISCAL YEAR 1980

Mr. NATCHER. Now, Mr. Magee, what have been some of the larger and more productive investigations and audits that have been completed in the past 12 months? Briefly tell us about some of these if you will, please.

Mr. MAGEE. In the past 12 months, Mr. Chairman, starting off with the investigations side, I will first say that we have pursued our established course of concentrating our investigative resources in those areas which pose the greatest threat to the integrity of the Department's programs, the integrity of the Department's personnel, and with the thrust to avoid at all costs the large dollar losses.

Historically for the last two or three years, continuing the last 12 months, we have concentrated the bulk of our investigative resources in programs of the Food and Nutrition Service, programs of the Farmers Home Administration, and programs of the Agricultural Stabilization and Conservation Service, which is where the big dollars are.

Last year we logged 652 indictments as a result of Office of Inspector General investigations. Most of these involved investigations in the categories that I just mentioned. For example, there were over 400 involving serious trafficking in the Food Stamp Program, which is a severe problem and has been for some time in the Department.

In terms of integrity investigations we have conducted investigations during the last year of such entities as the Federal Crop Insurance Corporation; we have had extensive investigations into Farmers Home Business and Industrial Loan category investigations; we have spent considerable time on rural rental housing

loans of the Department and a variety of other investigations of both a personnel and program nature.

I would at this point defer to Mr. Peterson because of my somewhat limited capacity on audit activities, since I think he can be more responsive.

Mr. NATCHER. Go right ahead.

MAJOR AUDITS DURING FISCAL YEAR 1980

Mr. PETERSON. I think some of the more significant audit reports issued during the past 12 months are those that were issued to the Farmers Home Administration on the Business and Industrial Loan Program; and within the past 6 weeks or so a report on 15 Business and Industrial loans being made in support of the gasohol industry. In the Food and Nutrition area, our nationwide school lunch and the child care audits and audits of the Food Stamp Program in New York City and in Puerto Rico are probably the most significant reports that we have issued during the past 12 months in terms of the potential impact on the dollars spent in the programs.

OMB CIRCULAR A–102

Mr. NATCHER. All right.

Now, in your statement you refer to the fact that the Office of Management and Budget has made numerous requests of the Office of Inspector General. You make particular reference to attachment P to OMB Circular A–102, a directive which requires that state and local governments arrange for a single organization-wide financial and compliance audit at least once every two years. You state:

> The potential effect on our operations by Circular A–102 cannot be overestimated. We anticipate that the implementation of that circular will become one of our highest audit priorities in 1981 and 1982.

What is your current estimate of the staff time that will be required in your office to implement the circular that you referred to?

Go right ahead.

Mr. PETERSON. I think over the next two years it is going to require about 50 work-years annually to implement A–102. We currently have about 75 people working on program implementation. I expect, however, that that figure will drop as the program moves along and will level off in 1982 to about 50 work-years. This is needed to satisfy fully the OMB circular, and particularly those functions pertaining to the cognizancy responsibilities, which is to say my office has cognizancy over a number of state agencies to get the single audit concept implemented and the audits completed.

JOINT DEPARTMENTAL AUDITS

Mr. NATCHER. Further in your statement, you say:

> As the other offices of the Inspectors General have become more active, the benefits of auditing program issues which cross governmental lines is becoming more apparent. During the last year we have engaged in joint audit work with the General Services Administration, Housing and Urban Development, Department of Labor, Health and Human Services, the Community Services Administration, and

the Small Business Administration. These audits have covered such issues as overlapping funding of child care programs.

I further note now that we had an article in one of the papers not too long ago, let me just quote a portion of this article, which you probably read. I quote:

In January 1979, Agriculture Department auditors discovered that both Agriculture and Health and Human Services Department had been reimbursing Philadelphia's get-set day care program for food service labor. The program has received $478,000 it wasn't entitled to receive.

The article states. I further quote:

But because the two departments' bureaucrats couldn't decide which agency should go after the overpayment, the funds have not been recovered and the day care operator is still being funded by both programs, according to GAO report.

Now how do you answer that statement that I have just quoted to you? Is it factually correct, Mr. Peterson?

Mr. PETERSON. It is factually correct, Mr. Chairman.

Mr. NATCHER. What have you done about it?

Mr. PETERSON. What we are currently doing is to do some of these audits jointly. For instance, we have a major effort under way now in which Agriculture auditors, in cooperation with HHS, Department of Labor and CSA are looking at this very problem again in the child care area.

Program managers have managed to avoid this issue in the past because each agency audited only their part of the program. Because it was not jointly being audited or administered by, say, HHS and Agriculture the problem was never fully addressed.

We think that with the joint audit and the insistence upon the joint administration involvement in the correction of those deficiencies we can move to correct this problem.

Mr. NATCHER. Mr. Peterson, what about the $478,000?

Mr. PETERSON. It still has not been collected, and that agency is still being funded.

Mr. NATCHER. Any move to be made to recover this money?

Mr. PETERSON. Well, within Agriculture the move was made. Agriculture said those funds are HHS funds.

Mr. NATCHER. Go ahead, Mr. Peterson, tell us what you are going to do about it. What about the $478,000?

Mr. PETERSON. I think, Mr. Chairman, as long as the various program administrators are permitted to deal with this as individual administration-type problems, the $478,000 is going to continue to slide between the various agencies funding that day care center and is not going to be collected. I think it can be collected when the various agency administrators are jointly confronted with a bottom line figure which shows precisely who the money should be collected from.

FISCAL YEAR 1982 STAFF-YEARS

Mr. NATCHER. Mr. Peterson, we will start again in about a week on the other subcommittee. I am going to ask them the same question. Maybe we will get it back, Mr. Peterson.

According to page 88 of the Notes, you plan to increase your permanent full-time staff-years from 900 in fiscal 1981 up to 965 in fiscal 1982. How realistic is this in view of the efforts to hold down federal employment? How do you explain that now, Mr. Magee?

Mr. MAGEE. Let me address it first of all by telling you, Mr. Chairman, that the increase that the Office of Inspector General is appearing here on today represents the minimum that we, in examining this from all sides, see as required to carry out these mandated functions that you have started to explore and that are mentioned in the statement. They represent a considerable reduction from the original estimates of the Office of Inspector General in terms of that same issue.

While we are all concerned and have to be concerned with the movement toward reduction of federal employment, I think we can safely take the view that the functions within the government that are established and aimed at reducing fraud, waste and abuse are a necessary part of the reduction of overall government expenditures. Therefore, the 30 positions that are reflected in this budget represent a bone cut in terms of our being able to even meet, under prior levels, these mandates and functions that we find ourselves confronted with; the alternative being, in the judgment of the Administration or in the judgment of anybody that passes on this, we could, of course, further reduce our investigative and audit attention to the programs within the Department.

The problem with that is that now, as a result of personnel and staffing problems over the past two or three years, we have moved to a point where there are a lot of things not being addressed in the Department's programs. We have negotiated with agencies to undertake actions that normally would be pursued by audit or investigation, and these are declinations of certain investigations that may well involve technical or real violation of crimes but that do not involve the dollar levels or the degree of corruption that we see as rising to the top of that priority level.

OIG–OGC WORKING RELATIONSHIP

Mr. NATCHER. Describe the working relationship between your office and the Office of General Counsel with regard to the Food Stamp Program.

Mr. MAGEE. Historically, and this goes back three, four, five years, the Food Stamp Program investigations that were conducted by the Office of Inspector General, first of all, were not in a full sense prioritized. That is, a lot of investigative resources were used on matters that did not rise to the level of federal prosecution and, in many cases, did not involve high dollar losses.

Starting about two and a half years ago, we undertook an action which goes directly to the issue that you cite, that is, the relationship with the Office of General Counsel. The Office of Inspector General, in the case of food stamp investigations in the main part, almost exclusively refers the results of our investigations directly to the Justice Department, to United States Attorneys, and does so not at the end of the investigation, but at the very early point in the investigation where we can determine if that particular situation meets the prosecutive priorities in the Judicial District. The benefit from that is that we don't waste resources on unproductive investigations.

The General Counsel's Office, in the food stamp area, generally enters into the Office of Inspector General relationship on those matters that lead to claims, to the institution of civil actions and

other things beyond the basic criminal level of food stamp violations.

As to a relationship, we have a very close working relationship but it has been altered substantially in this particular area over the last two or three years. I think that the results in terms of criminal investigations and successful prosecutions has endorsed the direction that we have taken.

Mr. NATCHER. Mrs. Smith.

Mrs. SMITH. Thank you, Mr. Chairman.

Mr. Magee, Mr. Peterson, Mr. Thornsbury, your Department is certainly to be commended for the work it does to insure the credibility of the various programs carried out by the USDA. If my records are correct, USDA was the first agency in the Federal Government to institute the self-policing office of the Inspector General. I know we couldn't calculate how much money you have saved, and that the cost of your operation is very small compared to this.

AUDIT ON B&I LOAN FOR ALCOHOL FUEL PROJECTS

Thomas McBride released a draft audit of FmHA business and industrial loans for alcohol fuel projects shortly before he was dismissed in late January. The audit was spurred in part by a request from my office for the Inspector General to look into the processing and handling of an alcohol loan application in my district. The draft report cited some of the fears regarding problems in the B&I program that I had noted, especially in regard to alcohol fuels.

My question is, has Mr. McBride's report been reviewed and, if so, are the findings and recommendations going to be changed or what could you tell me about it?

Mr. MAGEE. Let me comment before I turn for the specifics to Mr. Peterson, so I can be sure you have the background of this particular investigation and audit.

The Office of Inspector General has addressed endemic problems in the administration of the Business and Industrial Loan Program now for almost two years. The last two semiannual reports of the Office of Inspector General addressed the kind of decisionmaking problems that we viewed that then attached themselves to the processing of these particular business and industrial loans which had to do with the gasohol program.

To answer your question, the draft report in this particular case was surfaced earlier than the draft report would normally be surfaced because former Inspector General McBride thought it prudent to alert the new Secretary to take action to stop the further processing of these 15 questioned loans until he and his administrators could review it. That has been done. I think Mr. Peterson can totally respond to you in terms of the disposition of those 15.

I might also say there was some confusion in the press and elsewhere with regard to how many business and industrial loans were actually stopped by this action. The fact of the matter is, the Office of Inspector General reviewed 15. There were a number of others in the system and they were temporarily stalled until some decisions were made with regard to these 15, and these other loans, 14 or 15, have been moved on their way through the system.

But with regard to the gasohol loans that you addressed your question to, I would like Mr. Peterson to tell you what happened.

Mrs. SMITH. Thank you.

Mr. PETERSON. First, the recommendations will not be changed. We are in the process of finalizing the report and it will be issued I believe by the middle of March.

I was very encouraged by the way the new Administration accepted our audit findings and recommendations.

They brought in new people to look at each loan package as we had asked them to do. In three cases there were some conditional commitments added to the loan package which made the loan appropriate to be processed. The final result is that, as of this morning, I believe three of those loans are being processed.

The rest of the applications were sent back to the states to start the process over, because they had not been processed correctly the first time. Secretary Block caused those actions to be taken as we had recommended and the loans are now in various stages of processing.

Mrs. SMITH. Now I appreciate that answer. For these three that are being processed, do you expect them to be funded?

Mr. PETERSON. I believe they will be funded, assuming that the lender and the borrower will assume the new conditional commitments. There are additional commitments that we want the lender or borrower, as it may be, to assume. If that happens, I believe those will be funded.

Mrs. SMITH. So those have a chance of being funded?

Mr. PETERSON. Yes.

Mrs. SMITH. What about those that have been sent back?

Mr PETERSON. The ones sent back will have a chance of being funded, but they are going to be reviewed anew by a new cast of people to determine their feasibility and appropriateness.

MEAT AND POULTRY INSPECTION

Mrs. SMITH. I appreciate that answer. Now to go to something different.

I would like to know something about your assessment of the meat and poultry inspection services. You folks know, and our Committee knows, that this has been the subject of some controversy, and it concerns me to read that there is a 16- to 20-percent error rate for approved labels. It seems to me if we are going to put that expense on the producers and the marketers and consumers, it ought to be done more accurately than with an error margin of 16 to 20 percent.

Do you folks have plans for improving this record?

Mr. MAGEE. Mrs. Smith, with regard to the labeling issue, and I am aware of the controversy that has attended that particular aspect of the Food Safety and Quality Service for some time, we have not, so far as I am aware, addressed any particular audit or investigative attention to that issue since it hasn't moved yet into the areas that normally concern the Office of Inspector General.

Our primary concern and involvement with all of those programs have to do with those very basic areas of integrity, and corruption, in the administration of the program. So we would be delighted to hear whatever information you might need and submit it to you

directly and for the record, but I am at a disadvantage in this area, unless Mr. Peterson has something to add, because it has not been something within the general purview, up to this point, of the Office of Inspector General.

Mrs. SMITH. If you do have anything you want to add for the record, that would be very fine.

RATIO OF WASHINGTON STAFF TO FIELD STAFF

Just one more question. I am pleased to note the ratio of your field staff to Washington staff is 8-to-1. I think other agencies ought to follow your example. Field staff has a better chance to understand just how the program is operating. What I don't understand is how you got by this year with two new employees, but you feel you need 65 for 1982.

Mr. MAGEE. I think our request for 1982 is only 30—35 of those are carry over from a ceiling cut in the last fiscal year. I might tell you those positions are all field positions.

Your observation about our Headquarters staff is accurate. I would like to add to it by pointing out to you that we are in an organization which is peculiar because almost all of our professional people are either auditors or investigators. Even substantial portions of those people in the Headquarters staff are auditors and special agents who oversee the desks of the programs and provide a linkage between the field investigators and the Inspector General and the program people.

I guess what I am trying to say is that even the Headquarters people are heavily involved in audits and investigations although they are located in Washington, D.C.

Back to your central point, the increase of 30 and the carryover from the ceiling cut last year will address exclusively field positions, that is, people to do the auditing and investigations. There will be no increase in Headquarters is what I want to tell you.

Mrs. SMITH. Thank you very much, Mr. Magee.

I have no further questions.

Mr. NATCHER. Mr. Watkins.

BRUCELLOSIS CONTROL

Mr. WATKINS. I apologize for being late.

I do not have any in-depth questioning but has your department investigated any problems dealing with brucellosis?

Mr. MAGEE. We have essentially not been involved in brucellosis control. However, we have conducted and are conducting investigations that have to do with unlawful sale, movement and importation of cattle that pose that particular threat, but from a totally different view; that is, potential violations of federal criminal statutes. In those instances, we are linked up with the technical people from the appropriate departmental agency that has the responsibility for that; that is, the medical and the veterinary people that oversee the program.

We do not, in effect, enforce the regulation of the programs that have to do with the control, eradication and so forth of brucellosis.

Mr. WATKINS. I was curious from the standpoint of the Federal Government's role in this program and how they are interpreting and managing the program.

It seems like the term "evenhandedness" is popular in this Administration. We like to make sure there is an evenhanded approach. If there are any specifics later on, I will try to discuss this with some of your people.

Mr. Chairman, I do not have any specific problem. I am just the new kid on the block, on the section line, and I am trying to learn as much as I can.

MEAT AND POULTRY TASK FORCE

Mrs. SMITH. Would that new kid on the section line yield for one more comment?

I couldn't find the place when we were speaking a moment ago, but on page 102 you talk about the products standards and labeling for the poultry and meat inspection. I thought I understood you to say it wasn't in your territory.

Mr. MAGEE. Mr. Peterson has a comment on that particular thing. That was not an investigation nor an audit but a task force operation.

Mr. PETERSON. The report has been issued, the program administrator is currently responding to the recommendations of that task force, and it is an ongoing concern to the Inspector General and we will continue to follow up on the labeling standards.

Mrs. SMITH. I see. Thank you very much.

Thank you very much for yielding.

Mr. NATCHER. Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman. I, too, apologize for being late.

CHAIN OF COMMAND AND RESPONSIBILITIES

Who does the Inspector General report to in the chain of command of the Department?

Mr. MAGEE. By statute, Mr. Myers, the Inspector General reports to the agency head, that is the Secretary, and in no case lower than the second ranking official which would be the Deputy Secretary. That has been the case and it has been honored so far as I have been able to perceive it over the past several years.

Mr. MYERS. In order to carry out the responsibility of the Inspector General, it would require that checks and investigations are made routinely at random or however decisions are made of what particular area will be reviewed?

Mr. MAGEE. Let me address investigations first.

We operate, as does almost any federal or any other police or investigative agency, essentially on the basis of complaints and intelligence. The variety of matters that come to our attention mostly come from complaints or requests for investigation from various Department officials right down to the state and county level.

The Department of Agriculture has long had a very healthy situation where these reporting requirements are mandated in the administrative regulations of the Department. It is not permissive,

it is mandatory to report any possible violation of law to the Inspector General directly, not through the chain of command.

We get a great deal of our referrals from the auditing staff where they are out reviewing records, reviewing operations and come upon what appears to be fraudulent conduct. We get referrals from Congress and from private citizens.

In terms of judgment, of what to investigate, I can assure you it is exclusively retained within the Office of Inspector General. It is decentralized to each one of the Assistant Regional IG's who report to me in my normal capacity. They operate on a set of criteria that seeks to push what all of us consider limited resources, no matter how many any one has, into those matters that either have high prosecutive potential or, even more importantly, address questions of integrity on the part of Department personnel, and so forth.

Our scheduling, conduct and reporting of investigations in no way in the Department of Agriculture is subject, and never has been within the recent years, to review or reversal by any official outside the Office of Inspector General.

In terms of the disposition of investigative matters, it is our established practice to report on any matter, regardless of who is involved, directly to the Department of Justice for a prosecutive determination. I do not know whether I am being totally responsive but I think your concern might be whether or not there was an unfettered, independent discharge of this responsibility, and I can assure you that there is and there has been.

Mr. MYERS. How far does the Inspector General Office go as far as dipping down into county committees for ASCS, things like this? Is that your responsibility, if there is alleged inappropriate activity by a member, a volunteer, someone like this on a county committee, do you go that far down?

Mr. MAGEE. We consider as being in our appropriate jurisdiction anything that has to do with the expenditure of funds and operation of USDA activities. I hasten to say with some 265 field investigative persons at any given day, we don't do much fishing.

Mr. MYERS. You don't have time, do you?

Mr. MAGEE. They don't have time. Obviously they are handling complaints in whatever area of priority, but we have allies, as I mentioned before; the auditors who spend weeks in many cases reviewing various programs and operations surface many of these things.

I go back to the original first line, that is, employees in the Department of Agriculture know where to report these things.

For example, every regulatory official in the meat and poultry inspection area upon graduation from their school is furnished a 3-by-5 laminated card that bears a Washington, D.C. number that can be called 24 hours a day, 7 days a week. They can report an offer of bribe or an attempted bribe to a special agent. Customarily, upon such report, within the next 8, 10, 16 hours there will be an investigator on that scene pursuing that particular issue.

Mr. HIGHTOWER. If you get a telephone complaint or a report, must that be further verified in writing or in person?

OIG'S TWO HOTLINES

Mr. MAGEE. No. We have two hotlines. The one I was just referring to is one that has been in existence for 7 or 8 years, we call it the Bribery Hotline. It goes in and connects with people in a select division at Headquarters made up of special agents that handle these kinds of cases. Obviously we need the identification of the caller in order to follow up, perhaps have a face-to-face interview, but we afford and promise confidentiality under those circumstances.

Mr. HIGHTOWER. Yes. But suppose the caller won't give his name or permit further identification?

Mr. MAGEE. I might tell you that almost without exception the calls that come into that line are identifiable calls. There is another hotline where that is not the case. If it were anonymous but appeared to be logical and likely, we would make some attempt through our appropriate field office to check the records or check local intelligence or make some kind of foray that would give us a feel as to whether this was a wild goose chase or not. This hotline averages several hundred calls a year; it is the Employee Complaint Hotline mandated by the Office of Management and Budget in 1978.

Mr. HIGHTOWER. Is that an 800 number?

Mr. MAGEE. That is an 800 number. It services calls from any employee of the Department anywhere on anything. Obviously the calls that come in on that are not concentrated in the area of bribery or fraud but run the gamut from pay, promotion, travel, alleged waste, personnel practices, a great variety of other things.

The incidence of anonymity on that particular hotline runs considerably higher. Sometimes we ask the caller to confirm the information in writing, not necessarily with their identity but to be able to do a little more analysis than you can do in a 5- or 10-minute telephone call.

Mr. HIGHTOWER. I thank my colleague for yielding.

BACKLOG OF CASES RESULTING FROM HOTLINE CALLS

Mr. MYERS. Thank you for your questions.

How far behind are you right now as far as being able to serve and follow up on telephone calls and/or notices that there have been possible irregularities; how long does it take you to investigate?

Mr. MAGEE. That varies. We are presently carrying a backlog of 1,100 cases, which is not severe.

Mr. MYERS. What is the backlog, is the backlog that you haven't even gotten into the case?

Mr. MAGEE. No—that needs explanation.

A backlog in investigative terminology are those cases that are open but have not been reported. So they may have just been received or are in process or are in the United States Courts at some point. In terms of how long does it take us, it has to do with the priority of the matter as perceived by us and as fairly well-defined by us in our instructions to regional offices. That is, it isn't first in, first out.

A case involving bribery, corruption of a Department employee, or a large potential dollar loss will get immediate investigative attention even though other matters have been sitting in the hopper for weeks or months. It is sometimes necessary to disengage special agents from one location to move to another location to more important matters.

In general terms, I think we estimate it would take us somewhere in the vicinity of 1 to 30 days to initiate an investigation within this priority area. Now that doesn't address these calls that I referred to, Mr. Hightower, on our employee hotline, because they run a mix, where they are not talking about criminality. They are talking about a perception of mismanagement or waste or irregular personnel practices.

When we perceive that it does not fall into those areas of fraud, essentially the business of the Inspector General, we utilize the other agencies of the Department such as the personnel offices of the various agencies in the Department, and refer those matters to them, with a request that they look into them and inform us of what they find so we can make a judgment as to whether further Inspector General action is mandated. In terms of time frame on those cases, it runs a wide gamut.

We have matters open, unfortunately, for four or five months because of the system. It isn't always possible for us to get back as soon as we would like to the complainant with an answer.

I might tell you, part of our system does provide we get back when the complainant is identified and let them know what happened to their complaint.

Mr. MYERS. That is good.

Several of us, Mrs. Smith, Mr. Watkins and I, serve on the committee that funds the Department of Energy. We all were shocked, and I am sure you were, when we read in the paper after January 20 where one official of the Department of Energy had signed checks or authorized expenditure of large sums of money to be given to his favorite charities from the Treasury of the United States out of funds allocated to the Department of Energy.

Are you sure something like this hasn't happened in the Department of Agriculture maybe on a smaller scale? The outgoing Administration didn't realize there was this danger before, but it appears that is one of the dangers of changing administrations. It is costly to keep——

Mr. MAGEE. I would not tell you that something couldn't happen, I would not even tell you that something has not happened; I will tell you we do find employees who, through a variety of schemes, manage to dip into the Federal Treasury. In those cases where we are fortunate to learn about it, they inevitably end up in court and we inevitably get some, unfortunately not all, of the money back.

Mr. MYERS. This individual of course apparently received no personal gain other than the satisfaction of seeing his favorite charities receive these large sums of money, amounting to millions of dollars.

Mr. MAGEE. I am somewhat bemused by the fact that anybody could in a vacuum issue checks of that amount without some kind of check and balance system attending it. I am not familiar with their administrative set-up.

CHECKS AND BALANCE SYSTEM

Mr. MYERS. It is a pretty sloppy operation when one person could issue or have issued checks in this amount of money without any countersignature, or at least a cross-reference here, a cross-requirement that someone else approve it, even the Secretary himself. There ought to be someone else approve actions or operations like this. Is that also in your purview to make recommendations to make sure there is a checks and balances system?

Mr. MAGEE. It certainly is. We follow that course. I might say without being facetious that the disbursements of funds in the Department of Agriculture that I have been involved in have involved a great many more checks and countersignatures than I could even imagine are necessary in some cases. So it is hard for me to believe that a similar incident could occur where we were.

Mr. MYERS. If it would happen, there would almost have to be collusion among employees?

Mr. MAGEE. Yes.

Mr. MYERS. It looks like—I do not know, I won't comment further.

Thank you.

Mr. NATCHER. Mr. Hightower?

HIRING FREEZE

Mr. HIGHTOWER. Thank you, Mr. Chairman.

Mr. Magee, is the hiring freeze presently in force applicable to the Office of the Inspector General?

Mr. MAGEE. Yes, it is. It, in effect, has been in since February of last year.

Mr. HIGHTOWER. The Carter hiring freeze as well as the Reagan hiring freeze?

Mr. MAGEE. Well, it is a limitation that goes by the number. The problem is to lose enough people that would justify you hiring one-fourth or one-half of the number you have lost.

We have had a consistent problem because there is a high level of competition within the government, as I am sure you are aware, for audit and investigative personnel. We have found ourselves some 35 positions short, largely as a consequence of the limitation but not totally.

Mr. HIGHTOWER. Those 35 positions that you are short, could you tell us in what categories?

Mr. MAGEE. They are all auditors and investigators.

Mr. HIGHTOWER. Since the Office of the Inspector General has been in the Department of Agriculture for a good many years, it is much older than the similar offices in other departments and agencies. Has your office been used as a training ground for auditors and investigators for the rest of the government?

Mr. MAGEE. To some extent. Obviously if you have trained people, particularly in the supervisory level, they become very attractive to newly formed offices, and some of the Offices of Inspector General, as you well know, have barely been able to get off the ground in discharging their 1978 mandate.

We have not suffered the attrition, very frankly, that we might under those circumstances, because you also have the element of

job satisfaction, that is, the kinds of investigations and the kinds of audits have a lot to do with where people go and where they stay.

The attrition that we have suffered largely can be attributed to higher grade opportunities existing at a given point in time where somebody moves on to better and bigger things.

Mr. HIGHTOWER. Would you say most would move to other departments of government or private enterprise?

Mr. MAGEE. Largely into other departments of government. We are speaking of the investigative side, our investigators are in that large pool of federal criminal investigators which gives them the wherewithal to move from, let's say, Secret Service to Alcohol, Tobacco and Firearms, to one of the Office of Inspector General units, so long as the position exists. There aren't any tests or barriers to pass.

So by and large, except for those who have had some particularly lucrative offers from private industry, most of the movement has been into other departments of government.

Mr. HIGHTOWER. Since you are short in your auditing and investigative personnel, I believe you said 35——

Mr. MAGEE. Yes.

Mr. HIGHTOWER [continuing]. Has this handicapped your ability to respond to the complaints that you receive?

Mr. MAGEE. It always does, Mr. Hightower. What it does is shake this priority tree up and down. We move constantly toward the top of the priority. Since we are operating at what we consider to be the minimum in order to meet any shortages of personnel, it puts us at a disadvantage.

Mr. HIGHTOWER. So some relatively insignificant complaints, or complaints that are originally perceived to be minor although that may later develop to be of the first magnitude, might slip through the cracks because of your inability to respond or make a timely response because of lack of personnel. Is that true?

Mr. MAGEE. That is true, and I would have to tell you that with your description of minor and borderline matters, the truth of the matter is that those are not even scheduled for investigation in our Department under our present ceiling levels because there are too many things of a greater magnitude that warrant attention. So there are many matters that should be addressed by somebody that simply aren't, and it doesn't have anything to do with our temporary shortage of 35 people.

Mr. HIGHTOWER. So when a complaint comes in you don't know whether it is an ice cube or an iceberg?

Mr. MAGEE. That is the problem.

CARTER BUDGET REQUEST

Mr. HIGHTOWER. The budget figures that we are working with here I assume are the Carter budget, is that true?

Mr. MAGEE. Yes.

Mr. HIGHTOWER. You and we will all be receiving the revised figures within the next few days, is that correct?

Mr. MAGEE. You will be receiving them on March 10.

Mr. HIGHTOWER. If you were free at this time to ask for what you really needed to do a responsible job, would you stay with the Carter figures?

Mr. MAGEE. Well, the figures that you have here have to do with the funding for the number of positions that we were authorized after the system ran its course. It did not represent the figure that we contemplated as necessary in our first submissions.

Mr. HIGHTOWER. So actually, you would like more personnel to respond as you indicated you would like to do?

Mr. MAGEE. Well, Mr. Hightower, we would. Obviously we live in our particular world of the Inspector General community; we think we could do a more effective job. We think that the savings and the prosecutions and what-not all depend upon the number of available people.

We are also certainly aware of the pressures on the government establishment as a whole and we have determined to do two things: to make known what we think are our minimum needs, and then to do what we have to do with what we get.

ROLE OF THE INSPECTOR GENERAL

Mr. HIGHTOWER. You mentioned savings. If a particular investigation appears to give some opportunity for recovery of money or property to the government, is that of higher priority than something where there are no dollars involved particularly, but maybe just general mismanagement or some other category that doesn't reflect in the balance sheet?

Mr. MAGEE. That is a difficult question to answer because it would be easy to say that we go after the big dollar cases or after major cases of corruption, because both of those statements are true. The problem with it is that a major role of the Inspector General, as we view it in the Department of Agriculture, is a preventive role.

It is one thing to detect, prosecute criminals and recover some money by fines, and put individuals in jail for a while, but a large amount of our audit effort and some investigative effort in support of that audit effort is really aimed at things where there really isn't necessarily an immediate perception of a large dollar loss, but a long-range potential for large dollar loss. So, it is difficult to say we would be inclined to put our resources on what is immediately apparent to us and perhaps documentable as a loss because the truth of the matter is that a major part of our thrust is to find those weaknesses through investigations and audits and to encourage the Department into establishing those checks and balances and controls so that the losses down the road are fewer.

We are just as much concerned with the losses in fiscal 1983 and 1984 and 1985, ad infinitum, as we are with the losses we are confronted with right now.

Mr. HIGHTOWER. Mr. Myers made reference to an incident in the Department of Energy. As I recall that story, it was in regard to penalties that had been collected in court from oil interests and collected on behalf of consumers and paid into the court.

Do you have a similar situation type at all in the Department of Agriculture, where the government, on behalf of some identified class, enters a class action and recovers damages?

Mr. MAGEE. I am not totally familiar with this episode in the Department of Energy, but I wasn't of the impression that these moneys we are talking about were court collections. In our investi-

gations and audits any moneys that are collected by the courts go automatically back into the Miscellaneous Account of the Treasury, and the Department of Agriculture has no access to that money whatever.

Mr. HIGHTOWER. That is the point.

Mr. MAGEE. So the answer to your question is no.

I think this was a unique situation that somehow ended up with available funds which were accessible by some official within the Department of Energy.

Mr. HIGHTOWER. For damages that had been collected?

Mr. MAGEE. Yes. I am unaware of a situation in Agriculture that parallels that.

AMOUNT OF RECOVERIES

Mr. HIGHTOWER. Do you keep records of how much in dollars and cents your office recovers for the government?

Mr. MAGEE. Absolutely.

Mr. HIGHTOWER. Is that part of your report?

Mr. MAGEE. You will find some $72 million for fiscal year 1980 are identified as the results of audits and investigations in those areas such as recoveries, collections, penalties, fines, civil claims established and so forth. Our office has consistently, within this framework of money, been able to show more on the government's books than our total budget requests have been for several years now.

Mr. HIGHTOWER. Perhaps approximately double your budget amount?

Mr. MAGEE. If we got it all back and could use it within the Office of Inspector General, I hazard to say we wouldn't have to come up and justify additional persons, we could go out and hire them.

Mr. HIGHTOWER. Thank you.

Mr. NATCHER. Mr. Lewis?

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Magee and gentlemen, I too would like to express my admiration for the kind of self-start that put this effort together so long ago.

I was reminded, Mr. Chairman, of the largest high school in the country for a three-year high school that was in my district. I was curious about that high school going on the school board some years back. After some preliminary review, we found that the principal, who was nationally recognized as an outstanding educator with great concern for children, had for some years lied about the number of average daily attendance because that meant he would get more money and thereby had more dollars to take care of his children, failing to recognize he was stealing from children down the street.

So it is a very interesting twist that your work involves. The cases outlined in our book here give us an oversight that I think is helpful.

Mr. MAGEE. I can tell you that we also encounter a lot of people that lie about the number of children participating but it is not to put more money in the mouths of any other children; it is a different set of circumstances; I am talking now about the feeding programs.

Mr. LEWIS. Yes. I became satisfied that this principal was not putting the money in his pocket but was concerned about the kids. It is stealing just the same.

In the case you mentioned, your work takes you to the people who are looking for their pocketbook rather than children. Let me ask you about your jurisdiction as it goes beyond this country's borders. We do have USDA funds authorized and appropriated that go overseas for specific purposes? Does our investigation ever reach across the waters?

Mr. MAGEE. Yes. The Office of Inspector General has a Headquarters-directed element known as the Foreign Operation Staff. The various programs that you are talking about ranging from Public Law 480, activities of the agriculture attaché offices, are all subject to the audits and investigations of the Department. That is a regular ongoing function. We haven't any territorial limits as far as the USDA dollar is concerned.

Mr. LEWIS. We do have reports back regarding investigations as to what happens with our products or money or otherwise that arrive over there for specific purposes.

Mr. MAGEE. Yes.

Mr. LEWIS. I would be very interested in looking more closely at what results, what kind of authority we have when we get across the waters into another country.

Mr. MAGEE. Well, of course the question of authority poses a problem. It isn't really a problem because, generally speaking, the cooperating governments are cooperative and we have linkages through not only agricultural attaché offices but through the State Department elements, who will assist us in obtaining access to information, interviewing people, obtaining records, a whole variety of things.

So the question of authority has never really been an obstacle in our carrying out our audit or investigative functions overseas, except of course should any foreign national become involved in a criminal act, you would have to have involved the foreign national law enforcement element. And there would have to have been a viable violation of the laws of that particular country in order to do anything about the person.

The primary thrust of the Foreign Operation Staff in Agriculture is auditing, following the dollars, following the products and assuring that the intentions of the Congress and the administrative aims of the Department are carried out.

Mr. LEWIS. I am often amazed at just how naive we are. In foreign countries, because of the history and government pattern and so on, most of the business in some cases is done under the table and I would tend to be rather naive about that. I would like to take a look at the kind of information we have received and the results our investigations have produced.

Mr. MAGEE. That practice, Mr. Lewis, "ICE" or whatever other acronym it operates under, is of course not limited to foreign governments. It is not exactly alien to commerce in this country. But any reports that we have that would interest you, we would be glad to forward samples of audit reports so you can get a better feel.

Mr. LEWIS. Maybe if somebody could educate me?
Mr. MAGEE. Be delighted to.
Mr. LEWIS. Thank you, Mr. Chairman.
Mr. NATCHER. Mr. Akaka?

FOOD STAMP PROGRAM IN HAWAII

Mr. AKAKA. Mr. Chairman, thank you very much.

I appreciate your presence here before the subcommittee and your presentation. The kind of responsibilities you have are important if we are to keep operations straight. In Hawaii we always want to let the rest of the country know that we are very responsible and do a good job.

In reference to Hawaii, I would like to ask you about food stamps. From the kind of reports I have been getting from food stamp people, it seems as though they are doing a good job. I want to ask you whether you are aware of the work they are doing there, and even an evaluation of how they are doing.

Mr. MAGEE. Are you speaking about essentially the administration of the food stamp program?

Mr. AKAKA. The administration of the food stamp program.

Mr. MAGEE. I am not sure we have done recent audit work. I am sorry to tell you that there doesn't appear to be a recent audit experience that we can base an answer to your question on.

I can tell you, in an indirect way, that we have had special agents from our San Francisco office work in Hawaii with the Attorney General, developing methods for improvement, detection of abuses of the program, both through the normal sources and through computer analysis and so forth. I can only tell you that the reaction that we got was that there was a strong interest by the government there to keep the program clean. But I am limited in what I can tell you about the administration because of the absence of any recent audit.

Mr. AKAKA. Thank you very much.

Thank you very much, Mr. Chairman.

Mr. NATCHER. Any other questions from any of the members? Mr. Whitten and Mr. Traxler have prepared questions they would like answered for the record.

[The information follows:]

RELATIONSHIP WITH OFFICE OF GENERAL COUNSEL

Mr. WHITTEN. Describe the working relationship between your office and that of the Office of the General Counsel with regard to the Food Stamp Program. Specifically, on page 98 and 99 of the Explanatory Notes you say that your office issued 684 investigative reports and obtained 407 indictments for food stamp offenses. How do these numbers relate to the General Counsel's statement on page 120 of the Explanatory Notes that they reviewed 257 investigation reports concerning violation of the Food Stamp Act or regulations issued under it by participating food retailers or others, over 200 cases were referred to United States Attorneys for criminal prosecution, and approximately 100 prosecutions were undertaken?

Response. As I related to Mr. Natcher previously, our working relationship with the Office of General Counsel is excellent. As the former Inspector General, Mr. McBride, previously advised this Committee, several years ago we changed our procedures for the referral of criminal matters, including those cases involving the Food Stamp Program.

The Inspector General Act provides for the Inspector General to report such matters promptly to the Justice Department, and it has been our policy that Special Agents discuss cases with the appropriate United States Attorney as soon as there

are sufficient facts to indicate that a violation of criminal statutes may have occurred. This is done in order to obtain an early determination regarding prosecutive merit and to solicit advice and guidance on the development of the case. In fiscal year 1980, all cases involving criminal matters were handled in this fashion. Additionally, these as well as many noncriminal cases were referred to OGC for their information, review and for their program considerations as had been the past practice.

Of the 684 Food Stamp Program cases issued, we forwarded 463 to OGC. Of this group, we referred 293 to the United States Attorney for criminal prosecution. As of September 30, 1980, there were 18 cases pending review, etc., in OGC. During the year, there were 407 indictments returned and 325 convictions. The U.S. Attorney declined action in 91 cases and there are 68 cases pending in the offices of the U.S. Attorney. There were 196 prosecutions of Food Stamp Program cases by the courts.

It should be noted that referrals made in one year may not be scheduled for prosecutive action the same year, and the convictions reported above do not necessarily relate to the referrals made this year.

Mr. WHITTEN. Are there situations in which an investigation report is referred by you to the Department's General Counsel but no subsequent action is taken? If so, please describe several representative cases.

Response. I do not know of any instance that the Office of General Counsel has delayed action on any of our food stamp or other program cases. To my knowledge, we do not currently have any cases "hung up" in the Office of General Counsel.

BENEFITS FOR FORMER PERSONNEL

Mr. WHITTEN. On page 90 of the Explanatory Notes you report that you spent $57,000 in 1980 for "benefits for former personnel." Please describe this expenditure.

Response. These expenditures are primarily for severence pay paid to employees who were involuntarily separated for various reasons, such as refusal of directed reassignments and abolishment of positions.

ADP TRAINING

Mr. WHITTEN. You are requesting an increase of $800,000 for ADP equipment and training. Of this amount, how much is needed for training? Please describe the necessary training in some detail.

Response. We estimate $100,000 will be needed for training. The ADP processes assist greatly in audit activities and we are using ADP more and more because of the increased audit scope, depth and turnaround time. In order for us to keep up with the ever changing ADP world we must keep our present auditors informed of changes in technologies and provide basic training to new hires.

Some of the training can be done in-house. However, the majority of it will have to be from outside. We will use courses sponsored by OPM, the Federal Audit Council, and the Interagency Audit Training Program.

INCREASED FUNCTIONS AND STAFF-YEARS.

Mr. WHITTEN. You are requesting an increase of $1.3 million to carry out "the new functions and responsibilities recently imposed on OIG by OMB, GAO, and Congress." How many additional staff-years will be devoted to this effort? Please provide a breakdown of the specific tasks to which the additional staff would be applied.

Response. The OMB Circulars will require 21 staff years (A–71, Security of Federal Automated Information Systems, 3; A–76, Comparative Cost Analysis: In-house versus Contract, 3; A–102, Single Audit of State and Local Governments, 13; and A–110, Single Audit of Non-Profit Organizations, 2) and requirements of the Inspector General Act of 1978 (the hotline activities, seminannual report and review of new and proposed legislation) will require an additional 9 staff-years.

OIG FUNCTIONS AND RESPONSIBILITIES

Mr. WHITTEN. In connection with this requested increase you refer to "several new functions and responsibilities" and list four OMB circulars. Please describe any changes in these four OMB circulars which have been issued in the last year, and quantify the increased level of effort which is required for your office to comply with these circulars.

Response. Circular A–71 deals with security of federal automated information systems. The circular was not changed during the past year. However, it was during this period that OIG recognized the need to significantly increase audit efforts to help insure that the Department is meeting the computer security requirement of

Circular A-71. Recent OIG audits have shown that USDA computer systems are vulnerable to unauthorized access. Many of these systems contain sensitive financial records, personnel records, research data that represents expensive investments, trade secrets and the like. Unauthorized access can result in alteration or destruction of important and sensitive records, and violations of privacy or confidentiality. The content of these data bases, coupled with the growing use of computers in the Department, shows a need for expanded audit attention.

Circular A-76 deals with comparative cost analysis: in-house versus contract. This circular was not changed during the past year either. The Department fully implemented the circular requirements during 1980. During this process, approximately 200 potential situations were identified where OIG will be required to conduct independent audits of government cost estimates. OIG audits were initiated during fiscal year 1981, but it is anticipated that the major impact upon the Office of Inspector General will occur in fiscal year 1982.

Circular A-102 deals with single audit of state and local governments. During the past year, Office of Management and Budget issued the following supplements or revisions to the circular audit requirements:

The General Accounting Office "Guideline for Financial and Compliance Audits of Federal Assisted Programs," on April 2.

The major compliance features supplement, to be used in conjunction with the financial audit guide, on August 18.

An Attachment P revision calling for state and local governments to assure that small and minority businesses are used when contracting for audit services, on September 10.

A list of federal agencies responsible for administering the audit provisions of the circular, on October 6. This list assigned audit cognizance for all the state agencies that receive federal assistance.

None of these issuances changed the basic A-102 audit requirements. What they did, however, was to provide the previously missing elements that enabled OIG and other federal audit agencies to proceed with implementation of the A-102 audit requirements. The October listing assigned audit cognizance for 81 state agencies to OIG. We plan to require that all the state agencies be in compliance with A-102 by October 1, 1981, and to proceed with the first round of audits as soon as possible after that date. The audit cognizance responsibilities will have a significant impact on OIG.

Also, a large number of state agencies that are under the cognizance of other Departments receive assistance from USDA. OIG will receive and review all the audit reports for those agencies, transmit the reports to the appropriate USDA program agencies and, where applicable, follow up to see that corrective action is taken on audit findings and recommendations.

Circular A-110 deals with single audits of nonprofit organizations. Although there was no change in the circular, OMB did begin assigning audit congnizance for nonprofit organizations covered by the circular. Cognizance for community action agencies was assigned to the Community Services Administration. Many of these agencies also receive USDA assistance which means that OIG will receive and process the related audit reports, as explained in the preceding paragraph.

Fiscal year 1982 is the first year in which the Office of Management and Budget audit requirements will be operating on a large scale for Circulars A-102 and A-110. We expect the impact on OIG to be quite significant. The job will continue to grow as Office of Management and Budget assigns audit cognizance for local governments and for additional nonprofit organizations. In addition there will be a continuing heavy liaison workload necessary to coordinate our efforts with other federal audit agencies, recipients and nonfederal auditors.

Regarding the increased level of staff required to comply with these circulars, I see no change from my earlier comments where I discussed the need for additional staff.

DISTINCTION BETWEEN AN AUDIT AND AN INVESTIGATION

Mr. WHITTEN Please describe the distinction between and audit and an investigation.

Response. An audit is generally a planned review or appraisal to test the operational effectiveness of an activity, program, or function. For example, an audit will determine whether a program or entity is operating in accordance with its stated objectives, whether it is being managed as efficiently as possible, and whether the finances are being properly administered. The results of the audit are usually recommendations for corrective action aimed at helping to bring about a more efficient operation free of the potential for fraud and abuse. Specific instances of fraud or abuse uncovered by the audit are turned over to the investigation.

An investigation is usally initiated by an allegation that a program or activity is being abused or that there are indications of fraud. However, a significant number of OIG investigations are started when we believe that a progam or activity has a demonstrated potential for being abused or that there may be instances of fraud. The investigator searches for facts to prove or disprove the allegation or suspicion. In criminal investigations, this research may result in the indictment or conviction of individuals for violations of criminal statutes.

FINES LEVIED BY AGENCY

Mr. WHITTEN On page 95 of the Explanatory Notes you present a table which shows the monetary results of your office's efforts during 1980. This table draws the commendable conclusion that your efforts average approximately $75,000 per staff-year. However, it would appear that 176 fines were levied, but the total monetary result for "penalties, fines, and judgments" was only $564,000 or an average of something less than $3,000 per fine levied. What was the total amount of the maximum fine that could have been levied in these 176 cases?

Response. The following table displays by agency the distribution of the fines levied as a result of our investigative effort. From this table we see a spread of average fines of $50 to $7,500. We cannot establish the maximum fine(s) that could have been levied since we only statistically capture, for our case records, the actual dollar fines imposed by the courts.

It should be noted that the felony criminal statutes concerning federal program fraud usually provide, in addition to a jail term, a maximum fine of up to $5,000 per violation.

Agency	Number of fines	Amount	Average
AMS	5	$30,100	$6,020
ASCS	26	83,300	3,203
FmHA	10	27,789	2,778
REA	1	7,500	7,500
FNS	113	330,188	2,922
APHIS	8	4.350	543
FSQS	11	80,908	7,355
FGIS	1	50	50
Misc.	1	100	100
Total	176	564,285	3,047
Audit		346	
Total		564,631	

FOOD STAMP PARTICIPATION

Mr. WHITTEN. On page 98 of the Explanatory Notes you state, "Our emphasis continues to be in those areas with the largest food stamp population." Please provide for the record a table which will show the distribution of the food stamp population and the distribution of your staff resources devoted to the Food Stamp Program.

[The table follows:]

FOOD STAMP PARTICIPATION

(Per July 1980 Statistical Summary of Operations)

Region	Total staff years	Rank FSP partici-pation	State	Participation
North Atlantic	57	4		
			Connecticut	170,930
			Maine	145,106
			Massachusetts	452,947
			New Hampshire	52,682
			New Jersey	616,845

FOOD STAMP PARTICIPATION—Continued

(Per July 1980 Statistical Summary of Operations)

Region	Total staff years	Rank FSP participation	State	Participation
New York				1,809,304
			Rhode Island	89,490
			Vermont	44,911
Total				3,382,215
Northeast	142	2		
			Delaware	53,234
			District of Columbia	100,426
			Maryland	332,443
			Pennsylvania	992,946
			Puerto Rico	1,852,691
			Virgin Islands	33,899
			Virginia	404,078
			West Virginia	212,659
Total				3,982,376
Southeast	164	1		
			Alabama	608,166
			Florida	979,579
			Georgia	645,302
			Kentucky	484,255
			Mississippi	521,290
			North Carolina	592,344
			South Carolina	453,582
			Tennessee	662,836
Total				4,947,354
Midwest	122	3		
			Illinois	926,911
			Indiana	388,267
			Michigan	884,848
			Minnesota	189,170
			Ohio	904,469
			Wisconsin	231,960
Total				3,530,625
Great Plains	111	6		
			Arkansas	305,818
			Louisiana	583,171
			New Mexico	194,446
			Oklahoma	215,339
			Texas	1,168,854
Total				2,467,628
	138	7		
			Iowa	153,028
			Kansas	98,410
			Missouri	354,810
			Nebraska	72,072
			North Dakota	30,268
			South Dakota	46,283
			Colorado	172,870
			Montana	47,698
			Wyoming	15,741

FOOD STAMP PARTICIPATION—Continued

(Per July 1980 Statistical Summary of Operations)

Region	Total staff years	Rank FSP participation	State	Participation
			Utah	60,893
Total				1,052,073
Western	119	5		
			Alaska	30,579
			Arizona	221,301
			California	1,570,707
			Hawaii	104,354
			Idaho	69,736
			Nevada	34,490
			Oregon	209,358
			Washington	259,511
			Guam	22,868
Total				2,522,904
Headquarters	115			
Total Staff Years	968			

SALE OF COMMODITIES

Mr. WHITTEN. On page 101 of the Notes, regarding ASCS/CCC activities you state that you recommended that an overall Department plan be adopted which would provide detailed criteria relating to when commodities will be available for sale, on which basis prices should be set, and the method of sale. What has the Department done in response to this recommendation?

Response. The subject recommendation was made to the Agricultural Stabilization and Conservation Service in an audit report issued on November 5, 1980. It was one of six recommendations for improving the overall operation of the price supported commodity marketing process.

In a reply dated January 8, 1981, the Under Secretary, International Affairs and Commodity Programs, rejected all of the recommendations. Essentially, the Department advised OIG that the Commodity Credit Corporation Board of Directors functioned primarily as a policy and decisionmaking group and that it was not feasible or managerially desirable for the Board of Directors to become involved with the operational aspects of the inventories.

The need for more intensive management of the inventories was described in the audit by examples of sales decisions which were not in keeping with current market conditions and resulted in lost sales proceeds or increased storage costs.

CONTRACT VERSUS IN-HOUSE AUDIT SERVICES

Mr. WHITTEN. You have conducted an evaluation of contract audit services and have determined that "The cost of the OIG in-house audits were substantially lower than those of the outside contractors." What was the difference in cost, and how large was the sample of contract audits which resulted in this conclusion?

Response. A total of ten audits, performed by outside auditors under four contracts, were evaluated. The number of audits included in the sample was limited by the evaluation selection criteria. These criteria ensured the in-house audits to be co-evaluated were comparable.

The cost of audits performed by outside contractors exceeded in-house cost by 32 percent. The audit costs were computed on a weighted average basis, required because some of the contracts were fixed price (or lump sum in payment) and provided for the performance of a greater number of audits than were eventually evaluated. As a result, the cost of any one specific audit could not be identified. Cost computation breakdowns will be provided for the record.

[The information follows:]

Auditor	Contract No. 1		Contract No. 2		Contract No. 3		Contract No. 4		Total cost
	A	B	A	B	A	B	A	B	
In-house	5	$3,581	3	$7,729	1	$21,240	1	$12,361	$74,693
Outside	5	4,155	3	7,710	1	39,527	1	15,178	98,610

A = Number of audits evaluated.
B = Total audit costs divided by total number of audits performed.

Mr. WHITTEN. Given the findings of your evaluation, what are your thoughts on the continuation of contract auditing?

Response. OIG strongly favors continuation of contracting for audit services. The study showed the quality of audit work of outside contractors to be comparable with in-house audits, regardless of the type of audit. Because of constraints on our resources, we need to utilize the provisions of the Inspector General Act which permit contracting for audit services, in order to obtain audit coverage that might otherwise not be possible. Part of the cost difference between in-house and contracted audits was due to our relative inexperience in audit contracting. We expect the cost difference to narrow as we gain experience.

WORKLOAD DISTRIBUTION

Mr. WHITTEN. Please provide for the record a table showing the number of audit reports issued and investigations conducted during fiscal year 1980, by agency.

[The information follows:]

SUMMARY OF AUDITS AND INVESTIGATIONS

[By agency, fiscal year 1980]

Agency	Auditing	Investigations
ASCS	148	126
FAS	18	2
OGSM	1	1
FCIC	3	
FNS:FSP	170	684
FNS: Other	101	97
FSQS	6	153
APHIS	8	40
FGIS		9
AMS	4	11
FS	14	3
SCS	8	
SEA	6	
FmHA	193	273
REA	1	
O. & F	13	
Multiagency	11	
Other		526
Total, Fiscal year 1980	705	1,925

FLEXIBILITY OF USE OF FNS TRANSFER

Mr. WHITTEN. The Committee has expressed its intention that "the Inspector General should set his program priorities based on actual needs rather than considering the amount transferred from the Food Stamp Program to be a mandate to do no more and no less than that amount of food stamp audits and investigations." What actions can your office point to which can demonstrate that you have been mindful of the Committee's concern?

Response. We have established three priorities for our Office: the prevention and detection of fraud in USDA programs, assuring the integrity of USDA employees, and the avoidance of larger dollar losses in the administration of USDA programs. In planning for audits we are primarily concerned with the susceptibility of a program to fraud, abuse or waste. We no longer take the amount transferred from the Food Stamp Program to represent a minimum amount of resources which we should expend auditing that program. Last year we used approximately 21 percent

of our audit resources on the Food Stamp Program. On the investigative side, our investigations are also dictated by priorities set for our Office in contrast to the amount of money transferred from the Food Stamp Program. However, given the high vulnerability of the Food Stamp Program to fraud and abuse, we expended approximately 29 percent of our direct investigative workyears on Food Stamp related investigations. Overall the money transferred from the Food Stamp Program represents 26 percent of our budget.

MANPOWER UTILIZATION

Mr. WHITTEN. Please provide for the record a schedule showing the proposed utilization of manpower for Audit and Investigation for fiscal year 1982, similar to the table which appears on page 323 of last year's hearing.

[The information follows:]

STAFF UTILIZATION FOR FISCAL YEAR 1982

	Auditing [1] staff-years	Investigations	
		Cases	Staff-years
International affairs and commodity programs:			
ASCS	68	169	33
FAS	12	10	3
FCIC	6		
Total	86	179	36
Food and consumer services:			
FNS:			
Food stamp	100	904	140
Other	48	176	36
Subtotal, FNS	148	1,080	176
FSQS	6	265	50
Total	154	1,345	226
Marketing services:			
APHIS		42	9
FGIS		37	3
AMS		20	4
Total		99	16
Conservation, research and education:			
FS	21		
SCS	2		
SEA	6		
Total	29		
Rural development:			
FmHA	83	296	81
REA	2		
Total	85	296	81
O. & F	6		
New functions	31	72	13
OIG (internal)		7	1
Multiagency	80	4	3
Special reports	14		
Other	128	431	48
Grand total	613	2,433	424

[1] Entities are unknown at this time due to emphasis on special impact audits (nationwide) rather than routine, cyclical audits.

AUDIT AND INVESTIGATIVE RESULTS

Mr. WHITTEN. Please update the tables which appear on page 327 of last year's hearing, showing the number of investigations performed, indictments that have been obtained, and the amount of money the Department has been able to save as a result of audit findings.

[The information follows:]

SUMMARY OF AUDIT MONETARY RESULTS

FISCAL YEAR	REPORTS ISSUED	RECOVERIES	PENALTIES, FINES, AND JUDGEMENTS	ERRONEOUS PAYMENTS	SAVINGS	INCORRECT LOAN AMOUNTS	MANAGEMENT IMPROVEMENTS	TOTAL MONETARY RESULTS
1971	3,061	1,623,172		4,134,159	3,977,119	1,018,013		10,752,463
1972	2,938	2,433,341		10,595,647	6,010,036	4,888,912		23,927,936
1973	2,946	2,040,500		11,015,077	11,997,949	4,427,128		29,480,654
1974	2,792	1,408,148		5,340,253	12,811,425	3,804,219		23,364,045
1975	2,855	5,636,908	10,000	9,172,935	10,121,511	15,340,159	12,405,402	52,686,915
1976	2,232	3,756,547	33,903	10,700,787	6,263,441	5,337,820	6,517,877	32,610,375
Transition Quarter	360	2,489,462	570	3,361,738	688,696	1,931,664	11,690,212	20,162,342
1977	1,523	10,975,680	2,510,409	8,136,592	12,019,396	8,664,949	19,259,041	61,566,067
1978	1,395	8,914,638	161,956	74,635,471	6,725,166	15,301,144	32,761,666	138,500,041
1979	1,288	13,264,306	60,885	21,557,213	22,399,285	39,749,538	58,412,759	155,443,986
1980	705	3,841,756	346	35,227,827	4,526,427	4,490,797	10,343,888	58,431,041

SUMMARY OF INVESTIGATION RESULTS

Fiscal Year	Reports Issued	Monetary Results 1/	Indictments
1971	3,106	$4,193,502	167
1972	3,672	3,653,307	223
1973	3,871	6,819,900	408
1974	3,987	4,794,308	374
1975	5,184	4,986,652	369
1976	4,404	29,085,411	251
1977	2,612	5,253,928	325
1978	2,563	43,299,169	303
1979	2,348	34,930,478	567
1980	1,925	13,956,070	652

1/ Includes recoveries, savings, penalties, fines, and judgemnts.

WOMEN, INFANTS AND CHILDREN (WIC) FEEDING PROGRAM

Mr. TRAXLER. Mr. Magee, last year I asked several questions about the results of any audits that the Office of Inspector General has conducted on the Women, Infants and Children feeding program. Most of those answers, with respect to the provision of WIC-ineligible items, the training of food outlet operators to be more familiar with the program, and the like, were all answered by a general statement of "we are reviewing that matter in our current national audit." You do not say anything about the results of this study in your statement. Can you give me the current status of this audit, and can you update your answers with respect to your findings to date on specific problems associated with the WIC program?

Response. We have just completed a nationwide audit of the Supplemental Food Program for Women, Infants and Children which provides supplemental foods to persons of "nutritional risk", i.e., pregnant, postpartum and lactating women, infants and children under the age of five. This audit reviewed the program in 10 states with some of the largest allocations for fiscal year 1980 (approximately 40 percent of the total funds available). The audit showed that the state agencies participating in the program had no practical way to review records to determine whether persons were receiving benefits from more than one participating clinic; that the monitoring systems for the retail establishments participating in the program were in need of improvement; that some retail establishments were abusing the system, and that the data processing systems which the Food and Nutrition Service has financed in the 10 states audited were deficient. The Food and Nutrition Service has begun corrective action based on our findings. We plan to closely review the extent of corrective actions taken.

COMMODITY SUPPLEMENTAL FEEDING PROGRAM (CSFP)

Mr. TRAXLER. I understand that the office has recently begun an audit of the Commodity Supplemental Feeding Program. Do you have any findings at this time that you can provide to the Committee?

Response. As background, the Commodity Supplemental Feeding Program is administered in only 12 states with a 1980 budget of $28 million. In December 1980, FNS requested us to audit the Commodity Supplemental Feeding Program at two specific locations: New Orleans and Detroit. FNS wanted us to emphasize the distribution and storage of commodities in these two cities and the administrative costs claimed. We agreed to perform these audits during fiscal year 1981. We began our audit of the New Orleans Commodity Supplemental Feeding Program during January 1981. To date, no findings have been finalized.

Mr. TRAXLER. Can you tell me the exact scope of this review?

Response. We are reviewing all aspects of program operations including inventory controls, certification of applicants, distribution of commodities, reporting requirements, and overall financial accounting.

Mr. TRAXLER. Do you have any time scheduled at which you will be auditing the Commodity Supplemental Feeding Program operations in Detroit at focus: HOPE?

Response. We intend to start our audit of the Detroit Commodity Supplemental Feeding Program within the next three months when the audit experiences gained in the New Orleans audit are available to assist us in performing the Detroit Commodity Supplemental Feeding Program audit.

Mr. TRAXLER. When do you expect to have the Commodity Supplemental Feeding Program audit completed?

Response. We expect to complete the New Orleans audit by April 1981, and the Detroit audit by September 1981.

Mr. TRAXLER. We are hearing much about interest on the part of the Administration to reduce food stamp benefits by an amount equivalent to the benefits received by children in a household as a result of their participation in the various school feeding programs. Last year, Mr. McBride agreed with me that one of the major reasons for the problems you find in your audits is that the regulations governing the feeding programs have become terribly complex, and this complexity is the price that we have to pay for the type of controls on these programs that many want. Has anyone yet discussed with you what would be the best way to provide for this school lunch-food stamp reduction proposal from a regulatory standpoint? I am convinced that without further information about the way in which the records of school participation will be kept and the ways in which they will be utilized in determining food stamp eligibility that no one will have a full understanding of exactly what this proposal would mean to the operations of these feeding programs from an administrative standpoint.

Response. The Food and Nutrition Service has not formulated proposals to implement such a regulation at the local level. The Office of Inspector General, while

supporting the efforts to eliminate duplication in the feeding programs, also recognizes the administrative complexities such a regulation may bring about. Current estimates indicate that between 45–60 percent of the current 7 million food stamp households contain at least one school age child. Thus such a regulation would have a significant impact.

We have previously suggested a single application and certification process for the feeding programs, i.e., eligibility for food stamps, summer feeding and child care programs, the school lunch program, and the Women, Infants and Children (WIC) program. Barring such a procedure, one way to handle a school lunch offset would be to develop a standard rate of reduction per lunch applied to the average number of school days per year for each child in the family and reduce the food stamp allotment by that amount each month. School lunch applications could then be handled as they are now—by the school districe, or the food stamp family with school age children could be given a certification of eligibility for school lunches when they are approved for food stamps. This certificaiton could then be taken to the school as their authorization for such meals.

It should be noted that USDA now reimburses a school district approximately $0.80 for each free school lunch under Section 11 of the Act, while the average food stamp benefits per meal is about $0.40.

FOOD STAMP PROGRAM, WAYNE COUNTY, MICH.

Mr. TRAXLER. There had been findings by the Inspector General that there were high levels of error in the Food Stamp Program operation in Wayne County, Michigan. Over the past year, there have been various reports that the situation has been improving. What is your current assessment of the problem in Wayne County?

Response. We have noted serious problems in the administration of the Food Stamp Program in Wayne County for a number of years. In February 1978, we reported that for our test months of April, May and June 1978, 34.6 percent of the households were certified in error with corresponding dollar losses of $1.5 million for the three-month period.

In September 1979, we reported that 33.8 percent of the households participating in November 1978 were certified in error. This represented very minor improvements and a still unacceptable error rate.

In August 1980, we reported that 24 percent of the households were certified in error during our sample month of June 1979. The dollar losses were at least $811,965 or 10.2 percent of the total issuance. The reduction in the error rate reported in June 1978 (34.6 percent) to our August 1980 report (24 percent) does represent an improvement in program operations.

However, the rate remains high. Many of the problems in Wayne County were directly attributable to ineffective computer assistance. Wayne County has taken steps to improve in this area. While the Office of the Inspector General has not been back to audit Wayne County since August 1980, the Food and Nutrition Service Quality Control results for the period October 1979 thru March 1980, report a statewide error rate in Michigan of 25.3 percent (household error rate) with 10.5 percent of the food stamps overissued and 3.1 percent underissued, or a cumulative dollar allotment error rate of 13.6 percent. The Michigan figures still remain high, but are not significantly out of line with the nationwide cumulative allotment error rate of 12.6 percent for the same period.

AUTOMATIC DATA PROCESSING

Mr. TRAXLER. One of the ways in which problems with the feeding programs could be resolved, and this point extends to all of the other individualized programs operated by USDA, would be to provide for automatic data processing. Some people tell me that the Department is not taking advantage of modern technology for processing information, and that this problem is also prevalent with many states in their responsibilities for food stamps, welfare programs, and others. Can you give me your assessment as to what could be done to take advantage of ADP to help the waste problems in USDA programs?

Response. There are several problems associated with full utilization of automatic data processing in the Food and Nutrition Service feeding programs. They include: (1) The variety of programs and diversity of program participants who range from children in child care centers to drug addicts in rehabilitative centers; (2) The number of state and local agencies that actually administer the programs at the local level, many of which do not have centralized computer systems; and (3) The tremendous program growth in recent years, while demonstrating the need for more and improved computer capability, has strained existing capacity, and limited resources have often prevented major systems improvement.

In light of these problems, I believe some significant improvements in computer utilization have been made. Most significant probably was the 1979 amendment to the Food Stamp Act allowing the Secretary to require recipients to report social security numbers as a condition of participation. The social security number, a common identifier, facilitated various computer matching programs to detect fraud, waste and abuse. Such authority is presently not available in the other food assistance programs. I believe it should be.

A number of state agencies use various matching programs to detect fraud and abuse in the Food Stamp Program. Florida has on-line terminal capability which it recently began using to compare wage data information reported under the Wage Reporting System to that reported on food stamp applications. This up-front verification should help reduce one of the major reasons for program errors (underreporting income) in Florida.

The Food and Nutrition Service is now in the process of computerizing quality control results on a nationwide basis. This should allow for faster identification of problem areas as well as error types and trends.

The 1980 Food Stamp Act amendments provided for 75 percent cost sharing for computer design and development. This provision was effective October 1, 1980, and some states have begun to take advantage of it.

Other suggestions for improved ADP utilization include the need for actions to include:

A. Develop a centralized national system for feeding programs.

B. Provide 100 percent federal funding for state ADP systems that require the states to accept, install and operate a federally approved system.

C. Relax or eliminate privacy restrictions on cross matching routines.

D. Require ADP system certification (as outlined in OMB Circular A-71) and periodic recertification by an independent review group.

E. Legislate to require that equal emphasis is placed on both program delivery and accountability. (Currently it appears that program delivery is of primary importance and accountability is of significantly less importance).

F. Consider the establishment of a coordinating group composed of federal and state representatives with responsibility for specifying: (1) system design, (2) internal control mechanisms, and (3) system accountability procedures.

G. Require program personnel to become familiar with ADP products and learn how to use the products to manage and control program participation and benefits delivery.

H. Recognize the need for and provide sufficient lead time to permit an orderly implementation of ADP systems technology. Generally, there is insufficient time to permit required planning and analysis prior to legal program implementation dates. Time frames are often not realistic and guidance is not provided.

Mr. TRAXLER. Would your office be involved in making such a recommendation to the Department, and if not, who would have this ability?

Response. Yes, the Office of the Inspector General is normally involved in making recommendations (and does in fact make recommendations) relating to ADP systems technology at departmental levels, agency levels, program management levels and state, local, municipal and project levels. Other USDA agencies such as the Office of Operations and Finance and the program agencies also make recommendations regarding ADP technology and systems.

Mr. TRAXLER. To what extent is the Office of Inspector General making use of such technology?

Response. The Office of the Inspector General makes extensive use of ADP systems and technology. Since 1976, the Office of the Inspector General has recruited individuals with ADP expertise. Portable data terminals have been acquired and are widely used. Equipment upgrading at Regional Offices is scheduled for fiscal year 1981. During the performance of an audit of any activity or program which is supported by ADP technology, the system and the integrity of the information are usually analyzed and evaluated.

In the Food Stamp Program, for example, we have matched or are planning matches of the food stamp file against payroll files of federal, state, and local government employees. We have matched the file against wage data files to verify recipient reported income. Recently, while working in New York City, we provided the City with a listing developed through computer techniques identifying those recipients who had redeemed more than one food stamp Authorization to Purchase document during the month. Previously, New York had attempted to do this manually, which was a very costly and time-consuming task.

We intend to continue and expand our audits of computer systems as well as our use of computer techniques during our audits.

Mr. TRAXLER. Do you have any ideas as to what the cost might be of implementing ADP systems throughout the Department to cover those activities that you might find to be warranted?

Response. No, not only would systems have to be designed for installation on departmental computers, they would also have to be designed for states, local, municipal and project level computers. At present time, calculation of single system costs for a nationwide decentralized food distribution ADP system is not available. Costs would likely be extremely high for sophisticated systems installed across the nation.

Mr. TRAXLER. What activities do you believe should be covered by ADP?

Response. All activities which require recordkeeping, repetitious calculations of benefits, financial accounting and funds disbursement should probably be covered by ADP. Of primary importance to the Office of the Inspector General would be reconciliation subsystems which operate effectively.

The reliability of an ADP system is dependent on the adequacy and the emphasis placed on controls during the development, installation, maintenance and use of the computer equipment and software. System specification and design control should be designed to ensure the development of effective and adequately controlled systems. Additionally, auditability of systems should be addressed throughout all aspects of their development.

Mr. TRAXLER. What problems do you find associated with mandating ADP systems?

Response. Dollars/cost and personnel (level of expertise and numbers required) are the two primary problems associated with mandating ADP systems. Of secondary importance are management's understanding of ADP systems and technology, fear of change and lack of clear guidance requiring ADP.

Mr. TRAXLER. To what extent would ADP systems have to be utilized by state agencies administering USDA programs to make it a useful system?

Response. ADP systems and products should be fully utilized at all levels. Too often we find that information which, if properly utilized, could help avoid and prevent fraud, waste and mismanagement is ignored and not understood or utilized by differing levels within state agencies.

Mr. NATCHER. Mr. Magee, we want to thank you and your associates for appearing before our Committee at this time in behalf of your budget request for the fiscal year 1982. Thank you very much.

The Committee will now adjourn.

OFFICE OF THE INSPECTOR GENERAL

Purpose Statement

Pursuant to the Inspector General Act of 1978, the Office of the Inspector General:

(1) provides policy direction and conducts, supervises and coordinates all audits and investigations;

(2) reviews existing and proposed legislation and regulations and makes recommendations to the Secretary and Congress regarding the impact such initiatives will have on the economy and efficiency of the Department's programs and operations, and the prevention and detection of fraud and abuse in such programs;

(3) recommends policies for and conducts, supervises or coordinates other activities in the Department whose purposes are to promote economy and efficiency or prevent and detect fraud and abuse;

(4) recommends policies for and conducts, supervises or coordinates relationships between the Department and other Federal, State and local government agencies concerning; (a) promoting economy and efficiency; (b) preventing and detecting fraud and abuse: and (c) identifying and prosecuting people involved in fraud or abuse: and

(5) keeps the Secretary and the Congress fully and currently informed about fraud, other serious problems, abuses and deficiencies in Department programs and operations, recommends corrective action, and reports on the progress made in correcting the problem.

The Office of the Inspector General is headquartered in Washington, D. C., and has regional offices in the following cities: New York, New York; Hyattsville, Maryland; Atlanta, Georgia; Chicago, Illinois; Temple, Texas; Kansas City, Missouri; and San Francisco, California.

The Office of the Inspector General, as of September 1980, had total employment of 905 consisting of 850 full-time and 55 part-time employees. There were 105 employees located in Headquarters staff positions and 800 located in the field.

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OFFICE OF THE INSPECTOR GENERAL

Available Funds and Staff-Years

1980 and Estimated, 1981 and 1982

Item	Actual 1980		Estimated Available 1981		Budget Estimate 1982	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Office of the Inspector General	$35,941,000	968	$40,216,000	968	$43,535,000	1,037
Obligations under other USDA appropriations:						
Foreign travel for audits of market development cooperator projects and management reviews of attache activities, FAS	25,000	-	25,000	-	25,000	-
Child Nutrition Programs, FNS	154,552	-	-	-	-	-
ASCS, CCC Grain	250,699	2	377,000	4	-	-
Total, other USDA Appropriations	430,251	2	402,000	4	25,000	-
Total, Agriculture Appropriations	36,371,251	970	40,618,000	972	43,560,000	1,037
Other Federal Funds:						
House of Representatives:						
House Appropriation Committee	13,058	-	-	-	-	-
Total, OIG	$36,384,309	970	$40,618,000	972	$43,560,000	1,037

Full-time Equivalent Staff-Years:	1980 Actual	1981 Estimated	1982 Estimated
Permanent full-time	885	900	965
Other	53	50	50
Non-ceiling	32	22	22
Total	970	972	1,037

OFFICE OF THE INSPECTOR GENERAL

Permanent Positions by Grade and Staff-Year Summary
FY 1980 and Estimated FY 1981 and 1982

Grade	1980			1981			1982		
	Headquaters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
Executive Level IV	1	--	1	1	--	1	1	--	1
ES-6	1	--	1	1	--	1	1	--	1
ES-5	1	--	1	1	--	1	1	--	1
ES-4	2	--	2	4	--	4	4	--	4
GS-17	--	--	--	--	--	--	--	--	--
GS-16	--	--	--	--	--	--	--	--	--
GS-15	9	16	25	9	16	25	9	16	25
GS-14	19	21	40	19	21	40	19	21	40
GS-13	16	123	139	16	123	139	16	123	139
GS-12	12	171	183	12	166	178	12	171	183
GS-11	7	193	200	10	193	203	10	200	210
GS-9	4	106	110	4	106	110	4	115	119
GS-8	2	--	2	2	--	2	2	--	2
GS-7	13	80	93	13	80	93	13	89	102
GS-6	7	23	30	7	23	30	7	23	30
GS-5	3	66	69	3	66	69	3	71	74
GS-4	6	24	30	6	24	30	6	24	30
GS-3	1	2	3	1	2	3	1	2	3
GS-2	1	--	1	1		1	1	--	1
Total Permanent Positions	105	825	930	110	820	930	110	855	965
Staff-Years:									
Permanent	104	781	885	110	790	900	110	855	965
Other	8	45	53	8	42	50	8	42	50
Non-ceiling	3	29	32	1	21	22	1	21	22
Total	115	855	970	119	853	972	119	918	1,037

OFFICE OF THE INSPECTOR GENERAL

CLASSIFICATION BY OBJECTS

1980 and Estimated 1981 and 1982

	1980	1981	1982
Personnel Compensation:			
Headquarters	$3,150,000	$3,359,000	$3,563,000
Field	19,540,000	21,310,000	22,110,000
11 Total personnel compensation	22,690,000	24,669,000	25,673,000
12 Personnel Benefits	2,410,000	3,087,000	3,257,000
Total Personnel Compensation and Benefits	25,100,000	27,756,000	28,930,000
Other Objects:			
13 Former Personnel	57,000	- -	- -
21 Travel	5,414,000	6,719,000	7,654,000
22 Transportation of things	94,000	140,000	153,000
23.1 Standard Level User Charges	1,156,000	1,233,000	1,498,000
23.2 Communications, utilities and other rent	786,000	967,000	1,034,000
24 Printing and reproduction	66,000	80,000	82,000
25 Other Services	2,162,000	2,683,000	3,107,000
26 Supplies and materials	144,000	188,000	201,000
31 Equipment	153,000	450,000	876,000
42 Insurance Claims and Indemnities	7,000	- -	- -
Total other objects	10,044,000	12,460,000	14,605,000
Total direct obligations	35,144,000	40,216,000	43,535,000
Position Data:			
Average Salary, GS positions	$ 22,257	$ 24,347	$ 24,146
Average Grade, GS positions	10.16	10.10	10.08

OFFICE OF THE INSPECTOR GENERAL

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of the Inspector General:

For necessary expenses of the Office of the Inspector General, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), [$28,052,000] $32,787,000, including such sums as may be necessary for contracting and other arrangements with public agencies and private persons pursuant to section 6(a)(8) of the Inspector General Act of 1978 (Public Law 95-452), and including a sum not to exceed $50,000 for employment under 5 U.S.C. 3109; and in addition, [$10,000,000] $10,748,000 shall be derived by transfer from the appropriation, "Food Stamp Program" and merged with this appropriation.

OFFICE OF THE INSPECTOR GENERAL

	Office of the Inspector General	Transfer from Food & Nutrition Service	Total
Appropriation Act, 1981....	$28,052,000	$10,000,000	$38,052,000
Budget Estimate, 1982.....	32,787,000	10,748,000	43,535,000
Increase in Appropriation..	+ 4,735,000	+ 748,000	+ 5,483,000
Adjustments in 1981:			
Appropriation Act, 1981..	28,052,000	10,000,000	38,052,000
1981 Supplemental Appropriation for pay costs..	1,472,000	692,000	2,164,000
Adjusted base for 1982...	29,524,000	10,692,000	40,216,000
Budget Estimate, 1982.....	32,787,000	10,748,000	43,535,000
Increase over adjusted 1981	+ 3,263,000	+ 56,000	+ 3,319,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	1982 Estimated
Audits and investigations.....	$40,216,000	+$3,319,000*	$43,535,000

*Includes an increase of $968,000 for increased operating costs in order to sustain current performance levels of audit and investigative activities. Includes $173,000 for annualization of the FY 1981 pay increase, and $75,000 for restoration of the one-time Congressional cut due to FY 1981 hiring limitation.

PROJECT STATEMENT
(on basis of adjusted appropriation)

	1980		1981 (Estimated)		Increase or Decrease	1982 (Estimated)	
Project	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Audits and Investigations	$35,143,956	968	$40,216,000	968	+$3,319,000 (1)	$43,535,000	1,037
Unobligated balance.....	797,044	--	--	--	--	--	--
Total available or estimate....	35,941,000	968	40,216,000	968	+3,319,000	43,535,000	1,037
Proposed supplemental for pay increase costs.....	--		-2,164,000				
Transfer from DA.....	- 23,000		--				
Total, appropriation...	35,918,000		38,052,000				

EXPLANATION OF PROGRAM

This appropriation funds the activities authorized by the Inspector General Act of 1978 (Public Law 95-452) enacted October 12, 1978. This Act expanded and provided specific authorities for the activities of the Office of the Inspector General which had previously been carried out under the general authorities of the Secretary of Agriculture. The Inspector General:

-- conducts and supervises audits and investigations relating to programs and operations of the Department of Agriculture;

-- provides leadership and coordination and recommends policies for activities designed (a) to promote economy, efficiency, and effectiveness, and (b) to prevent and detect fraud and abuse in programs and operations of the Department; and

-- keeps the Secretary and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

The following table shows the audits and investigations and the staff years planned for each area for fiscal year 1981.

Area	Audits/ Cases	Staff-Years of Effort
Audits	800	572
Investigations	2,351	400
Total	3,151	972

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of $3,319,000 for audits and investigations ($40,216,000 available in 1981.)

(a) An increase of $173,000 for annualization of FY 1981 pay increase.
An increase of $75,000 for restoration of the one-time Congressional cut due to FY 1981 hiring limitation.

(b) An increase of $968,000 for increased operating costs. This increase will provide for continuing the current level of audit and investigative activity with emphasis on the prevention of fraud, abuse and waste.

(c) An increase of $800,000 for ADP equipment and training.
Need for Change. OIG strives to be at the forefront in the use of computers and mathematical techniques in the Federal audit community. Each year more USDA functions and program support activities are automated and old systems are converted to new technologies. In our effort to provide the Department's managers with the kind of information necessary to administer their programs, we must keep abreast of new ADP equipment, technology and training. OIG uses ADP resources primarily in four areas: (1) to provide OIG management with tracking and reporting of audits/investigations; (2) to assist in the performance of audit/investigative fieldwork; (3) to develop ADP techniques for detection of fraud and abuse; and (4) to support OIG initiatives by supplying information to auditors/investigators from data base analyses and from USDA program data. These increased funds will be used to offset increased computer center processing costs, for needed additional equipment and programming support and for additional ADP training of our audit staff.

Nature of Change. In order for OIG's professional staff to function most effectively they must be knowledgeable in ADP, and be able to use the computer as a tool in performing audits and investigations. The proposed training will provide these needed ADP skills and will add significantly to the quality of our work, update our staff to the most current methods and procedures available and increase our overall ability and effectiveness.

These increased funds will also allow for installation of limited ADP equipment in regional offices which will provide access to all USDA computer centers as well as approved State agency computer centers. Prudent use of the new ADP resources will allow the agency to review

USDA and USDA-funded State and local programs on a much wider scope in more in-depth detail and in much less time, resulting in net workyear and agency resource savings.

(d) An increase of $1,303,000 to carry out the new functions and responsibilities recently imposed on OIG by OMB, GAO and Congress.

Need for Change. OIG has been assigned several new functions and responsibilities:

-- A-102 (Single audit of State and local governments) and A-110 (Single audit of non-profit organizations) require that each State and local government, or subdivision thereof, and each federally assisted non-profit organization that receives Federal assistance have a nonfederal audit at least once every two years. These are in addition to any audits performed or obtained by Federal agencies. OMB is now in the process of establishing audit cognizance and it is anticipated that OIG will be assigned as the cognizant agency for 81 State agencies. We also have to review audit reports of entities which receive USDA assistance but for which other Federal agencies have been assigned cognizance.

-- A-76 (Comparative cost analysis: in-house vs. contract) requires that any decision to provide commercial or industrial products or services in-house be supported by a comparative cost analysis and that these be reviewed by an independent authority to ensure conformance with cost comparison guidelines. In addition, an independent objective review of the initial determination and the rationale upon which the decision was based, is required in the event of appeal of such a decision. OIG is assuming responsibility for these independent reviews.

-- A-71 (Security of Federal Automated Information Systems) requires periodic OIG audits of the adequacy of security safeguards of all sensitive computer applications. This requirement places significant demands on our resources due to the Department's extensive and increasing use of automated systems.

Numerous other responsibilities such as the employee complaint system (Hotline), fraud vulnerability surveys of USDA programs, review of existing and proposed legislation and the Semiannual Report to Congress also continue to require use of available resources.

Nature of Change. This increase will provide the staff and other resources necessary to carry out mandated requirements in connection with the new functions and responsibilities assigned OIG. It will be used for additional staff to audit, review audit reports, make quality assessments, distribute and take necessary followup action on audit reports in connection with OMB Circulars A-102, A-110, A-71 and A-76, and contracting and procurement practices. It will also provide necessary investigative staff to assist in handling the increased workload resulting from the employee complaint system (Hotline).

STATUS OF PROGRAM

The Office of the Inspector General (OIG) is operationally independent of other agencies of the Department. OIG has the responsibility (1) to supervise, coordinate, and provide policy direction for audit and investigative activities relating to programs and operations of the Department; (2) to recommend policies for, and to conduct, supervise, or coordinate other activities of the Department for the purpose of promoting economy and efficiency, or preventing and detecting fraud and abuse in its programs and operations; (3) to keep the Secretary and Congress informed by reports concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations; and (4) to recommend corrective action and report on progress made in implementing such action.

ACCOMPLISHMENTS IN FISCAL YEAR 1980

	Auditing	Investigations	Total
Monetary Results			
Recoveries and Collections (actual)	$ 3,841,756	$ 4,407,473	$ 8,249,229
Savings (payments not made based on audit/investigation reports)	4,526,427	6,811,037	11,337,464
Erroneous Payments reported	35,227,827	-	35,227,827
Management Improvements (potential annual savings)	10,343,888	-	10,343,888
Incorrect Loan Amounts identified (Loan Disbursements)	4,490,797	-	4,490,797
Penalties, Fines & Judgments (actual)	346	564,285	564,631
Claims established (actual)	-	2,173,275	2,173,275
Total	$58,431,041	$13,956,070	$72,387,111
Other Accomplishment Data			
Reports Issued	705	1,925	
Indictments	-	652	
Convictions*	-	499	
Suits Filed	-	32	
Fines Levied	-	176	

*Note: Since the period of time to get court action on an indictment varies widely, the 499 convictions are not necessarily related to the 652 indictments. Our overall conviction rate has been approximately 90 percent.

During the year we redesigned our audit management information system. The new system provides OIG with enhanced capabilities in such areas as audit followup and presentation of audit results. For example, the system can provide cumulative information on monetary results at the time the audit reports are issued and compare it with monetary results at the time the reports are closed. The information presented above on monetary results is

for closed audit reports. The new system was operating for the last six months of the fiscal year. During that period we issued 238 audit reports. One hundred and forty-one of these reports had monetary values associated with them as follows:

Questioned Costs	$124,338,000
Savings and Management Improvements	91,228,000
Improper Loan Payments and Guarantees	30,920,000
Total	$246,486,000*

* This includes a monetary finding of over $163 million in an audit of the interest credit agreements of the Rural Housing Construction and Repair Loan Program.

During the same period we closed 268 reports, 152 of which contained monetary findings. At the time of issuance, the monetary value associated with these reports amounted to $2,743,000 for Questioned Costs; $1,927,000 for Savings and Management Improvements and $2,415,000 for Improper Loan Payments and Guarantees.

Adjustments during the audit resolution process changed these amounts, resulting in the following monetary values at the time the reports were closed: Questioned Cost (Disallowances) $1,924,000; Savings and Management Improvements $3,356,000, and Improper Loan Payments and Guarantees $1,312,000.

Claims which were established on the basis of the above disallowances were disposed as follows: collected $1,066,000; in process of collection $295,000; and collection waived under authority of existing legislation or the provisions of the Federal Claims Collection Act $563,000.

FARMERS HOME ADMINISTRATION (FmHA)

During FY 1980 OIG issued 193 audit reports related to Farmers Home Administration. These included major audits on the Business and Industrial Loan Program, the Community Facilities Loan Programs, interest credit granted under the Rural Housing Program, and FmHA internal control systems. In addition, 273 investigative reports were issued on FmHA personnel and programs. During this same period we had 78 indictments, 39 convictions, fines of $27,789, and $1,383,912 in recoveries, collections and claims.

Some examples of investigative results include:

- o A loan applicant offered a bribe of $5,000 to an FmHA County Supervisor if the County Supervisor would approve a loan of between $125,000 and $150,000. The applicant was indicted, tried and convicted of offering a bribe to a United States official.

- Two contractors borrowed $585,000 from the Farmers Home Administration to construct two Rural Rental Housing projects. Construction contracts were signed with a firm owned by the two borrowers and a third individual. The two borrowers presented false documents to substantiate their cash contributions for the projects, misused loan funds paid for construction costs, and misused rental monies received from one of the projects. All three parties were subsequently indicted and tried. The defendants were convicted of presenting false statements and/or conspiracy.

The following are examples of audit findings:

- Economic Emergency Loans. We reviewed 276 Economic Emergency Loans in 12 States to determine whether loans were made to eligible applicants for authorized purposes and whether there were reasonable efforts to make guaranteed loans rather than insured loans. We found that 31 loans totaling $3 million were made to borrowers who were ineligible or were made for unauthorized purposes. The dollar amount of insured loans exceeded guaranteed loans by 20 to 1, although FmHA regulations required giving priority to making guaranteed loans. Additionally, loans were made to refinance borrowers' operating type debts over periods as long as 40 years without determining the borrowers' ability to repay the loans over shorter periods.

- Emergency Loans. Our review of ten Emergency Loans of over $1 million disclosed that FmHA had not made realistic efforts to determine whether the borrowers could obtain credit from other lenders. Some of these loans were made to farmers with large net worths which appeared to be more than sufficient security for loans from commercial lending institutions. We found emergency loans made to wealthy borrowers who used the funds to refinance major real estate debts on farms which they had owned only about a year, and in two cases to refinance land purchased after the disaster occurred.

- Community Facilities Loan Program. Our audit of this program found that a number of projects were too costly and others were poorly constructed and did not serve the needs of the user. In the 47 projects selected for audit, there were serious planning, design and construction problems resulting in expenditures of about $15.6 million which we considered to be ineligible or excessive.

- Interest Credit. In an update of our 1976 interest credit audit, we found that actions taken by FmHA as alternatives to the recommendations in the prior audit report have not been effective in improving interest credit administration. As a result, the amount of projected excessive interest credit granted to borrowers over the 2-year agreement period has been escalated from $50.3 million in 1975 to $190.7 million in 1979.

FOOD AND NUTRITION SERVICE (FNS)
Food Stamp Program

During FY 1980 OIG issued 125 food stamp audit reports, including 23 State agency reports. Our emphasis continues to be in those areas with the largest food stamp population. OIG issued 684 investigative reports and obtained 407 indictments for food stamp offenses. We continue to concentrate our investigations on organized criminal elements: wholesalers and retailers trafficking in food stamps, counterfeiting operations, large issuing office thefts and frauds involving trafficking of Authorization to Participate (ATP) cards.

Some examples of our investigations include:

- A survey of food stamp trafficking in one State resulted in 35 indictments. Employees of seven authorized retailers, two unauthorized retailers, and 21 individuals unconnected with retail stores purchased $65,290 in food stamps for $23,285 in cash.

- A supervisor in one Department of Social Services District office and seven others were arrested, arraigned, and bound over for trial for conspiring to obtain food stamps through false statements. The supervisor and another employee set up at least 37 food stamp files for non-existent persons. Five hundred forty-two ATP's with a bonus value of $143,602 were redeemed. OIG worked with State officials in the Department of Social Services on the investigation.

- Another major two-year investigation resulted in the indictment of 50 individuals in five cities across the country. The investigation confirmed that food stamps illegally purchased for cash by retailers were frequently spread out and redeemed by other retailers located in different cities. Local police and other Federal agencies cooperated in our efforts.

The following are examples of food stamp audits:

- Our food stamp audit in one jurisdiction statistically projected an overall certification error rate of 35 percent. We determined that: In one month $25.9 million in food coupons were overissued to households that were improperly certified; there was an unreconciled shortage of $15.7 million in cash and food stamp inventories covering the period July 1974 through December 1978; and retroactive benefits of over $5 million were not substantiated by documentation in the case files. The audit also noted problems with the ADP system, Food Stamp Program staffing, and benefits being duplicated or excessive. FNS has billed the jurisdiction for the $15.7 million cash and coupon shortage.

- In a follow-up audit of one large city, we found that improvements have been made; however, some serious problems persist. For example duplicate ATP redemptions were causing losses of about $1.2 million per month. Total savings of about $2.4 million per month could be

achieved if effective actions were taken. City officials agreed with the audit findings and implemented corrective actions based on our preliminary report.

- In another previously audited State, Statewide certification errors had declined, but the error rate for one of the major counties remained high with dollar losses continuing at about $800,000 per month (about 10 percent of the total food stamps issued).

OTHER FOOD AND NUTRITION SERVICE PROGRAMS

During 1980 we conducted 144 audits of FNS programs, other than the food stamp program. Audit findings include:

- Child Care Food Program - We conducted a nationwide audit of the Child Care Food Program in 13 States to test the accuracy of data used by institutions in claiming reimbursement for meals served. In addition, we assessed Federal and State guidance and supervision provided to institutions and found weaknesses which had permitted fraudulent or wasteful practices to occur. We found that 79 percent of the 175 child care centers audited had submitted erroneous claims for our test month. We statistically projected, that as a result of errors, institutions in the 13 States received excess reimbursements of about $1.4 million out of the total of $9 million paid for that one month.

- Women, Infants and Children Program - We completed a nationwide audit of the Supplemental Food Program for Women, Infants and Children which provides supplemental foods to persons of "nutritional risk;" i.e., pregnant, post-partum and lactating women, infants, and children under the age of five. The audit results demonstrate that the program's rapid expansion was not accompanied by necessary management controls. The review showed that the State agencies participating in the program had no practical way to review records to determine whether persons were receiving benefits from more than one participating clinic, that the monitoring systems for the retail establishments participating in the program were in need of improvement, that some retail establishments were abusing the system, and that the data processing systems which the Food and Nutrition Service has financed in the 10 States audited were deficient. The Food and Nutrition Service has begun corrective action based on our findings.

- School Breakfast and Lunch Programs - As part of a special report requested by Congress on the extent of fraud, waste, and abuse in Child Nutrition Programs, we conducted a nationwide audit of School Breakfast and Lunch Program participation for the month of May 1980 in 14 States. Using statistical sampling techniques, we evaluated the accuracy of reported participation and student eligibility for free and reduced-price meals. We found a significant number of children were participating in the program although they were not eligible for either free or reduced-price meals. We also found that

some students were not given the opportunity to participate in the free or reduced price meal program. A substantial number of the applications we reviewed had incomplete information upon which to base the decision of eligibility for free or reduced-price meals. Finally, the audit showed that some school meal counts were based on averages or estimates of meals served rather than actual participation. This resulted in significantly overstated claims for Federal funds.

Examples of Child Nutrition Program Investigations:

- Two persons who operated a child day-care center were indicted on six counts for violations related to the Child Care Food Program. In support of their operational expenses, the defendants furnished false invoices for a six-month period, and when asked, maintained that all supporting documents had been destroyed by fire. During the six-month period in excess of $18,900 in false invoices for program expenses were used to claim more than $29,200 from the Food and Nutrition Service.

- Two school principals and the bookkeeper for the Child Nutrition Program in a county board of education were indicted for misuse of more than $9,000 in National School Lunch Program funds and submission of fraudulent claims for meals in excess of $22,500.

- The owner of a tool and air conditioning supply company was indicted for making systematic payoffs to a supervisor in the maintenance division of a school district. The supervisor, who also was indicted, was paid over $4,000 during a 19-month period for requesting and obtaining purchases of equipment from the firm. The equipment involved, in part, the expenditure of National School Lunch Program funds.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS) AND COMMODITY CREDIT CORPORATION (CCC)

During FY 1980 OIG issued 148 audit reports related to ASCS/CCC activities. These audits included four major program audits covering restricted use of peanut oil, beekeeper indemnity payments, participation of cooperatives in price support programs and farm-stored grain. In addition, we issued 7 State-coordinated audits and 63 county audits. During FY 1980 OIG issued 126 investigative reports and our work resulted in 83 indictments and 68 convictions.

Some examples of investigative results are:

- An investigation conducted jointly with the Federal Bureau of Investigation resulted in the principals of a large-volume grain warehouse being charged in a 12-count conspiracy indictment. Charges included: Defrauding a bank by securing loans with worthless warehouse receipts, making false statements to the Government about

the status of grain at the warehouse, selling grain mortgaged to the Commodity Credit Corporation, and "bugging" a warehouse office. Trial is pending.

- An Agricultural Stabilization and Conservation Service County Executive Director obtained $110,000 in low-interest farm disaster loans from the FmHA and the Small Business Administration by exaggerating cotton crop losses and withholding ASCS loss indemnity payment information from loan officials. He was indicted and found guilty of making false statements to the lending agencies. He was sentenced to imprisonment for a year and a day, and fined $15,000.

Significant audit findings include:

- Restricted Use of Peanut Oil - We recently conducted an audit which covered the sale of 1977 and 1978 crop year peanuts. Peanuts not exported for edible use were sold for domestic crushing into oil for restricted use sales. The provisions of the CCC announcement governing restricted-use sales specify that: (a) restricted-use oil be sold for domestic use only, and (b) a "certification chain" be maintained to document that the oil is used domestically. Time periods within which peanut oil must be sold are also specified. Liquidated damages may be assessed on violations of the announcement. To date we have audited the records of two companies that had purchased domestic restricted-use peanuts and/or peanut oil from 1977 and 1978 CCC stocks. In both instances, we found that large amounts of restricted-use oil had been resold without requiring certification that it would be used domestically. We concluded that ASCS could assess liquidated damages of about $3.1 million.

- Comprehensive Commodity Inventory Plan - We found that CCC operations are managed without detailed criteria relating to when commodities will be available for sale, on what basis prices should be set, and the method of sale. Instead, many decisions seem to be made in reaction to a particular market situation rather than within the framework of an overall Department plan. Although these decisions are made by commodity experts and are usually approved by an officer(s) of the CCC Board, documentation is not always formal and limited evidence exists on alternatives and other data that were considered. We recommended that an overall Department plan be adopted because of: (1) the scope, complexity, and economic impact of CCC sales on consumers, industry, and world prices; and (2) audit determinations that certain management or sales decisions resulted in lost sales proceeds or increased storage costs totaling millions of dollars.

FOOD SAFETY AND QUALITY SERVICE (FSQS)

- During fiscal year 1980, we continued to devote substantial investigative resources to the inspection and grading activities of the Food Safety and Quality Service. This has resulted in 20 indictments. Violations included bribery of Federal inspectors,

adulteration of products and the use of counterfeit grading devices. The investigations involving the counterfeit devices, as well as investigations into problems associated with certificates used in the importation/exportation of meat products, disclosed the need for better administrative controls to make these items less susceptible to counterfeiting or other abuse. A joint FSQS/OIG study has been initiated to formulate appropriate technical, legislative and administrative recommendations.

- Meat and Poultry Inspection - In FY 1979, OIG established a Task Force to address long-standing problems in inspection and grading activities related to the compliance program of the Food Safety and Quality Service. The preliminary findings reported to FSQS disclosed a number of problems and the Task Force recommended more in-depth audit work in three areas: (1) the compliance program for standards and labeling; (2) the compliance program for the evaluation and enforcement of laws and regulations; and (3) the testing by field operations of quality control in slaughter and processing plants. In cooperation with the Meat Science and Research Laboratory of the Science and Education Adminstration, we undertook a study to evaluate the accuracy and uniformity of beef grading by FSQS. The results of the review were as follows:

  - Product Standards and Labeling - We found the Meat and Poultry Inspection system for identifying and labeling products needed major revision, not only to assure compliance with existing laws and regulations but also to resolve complaints and confusion among the industry and consumers alike. We reported widespread problems in maintaining up-to-date standards for meat and poultry products and the conditions under which such products, or imitations thereof, could be labeled and sold in commerce. Also, the process of approving, inventorying, and rescinding temporary labels was inadequate. Further, the quality control system to prevent label errors was deficient; our tests showed that 16 to 20 percent of approved labels contained errors.

  - Evaluation and Enforcement - Policies and procedures for taking administrative action against plants found to be out of compliance had not been fully implemented. For example, inspection was not denied nor withdrawn from plants when owners/managers were convicted of criminal offenses other than bribery. Also, there was no effective enforcement action to withhold inspection from about 400 "chronic problem plants." Our sample tests showed that about 125 of these plants had serious unsanitary conditions causing adulterated products. Due to limited staff resources and competing priorities, Meat and Poultry Inspection formal reviews of State compliance programs had been discontinued.

  - Monitoring of Slaughtering and Processing Activities - We found the Acceptance Quality Level program for assuring wholesome and clean products needed improvement in four poultry and three meat

plants reviewed. The monitoring system was not working well enough in the plants we reviewed to prevent numerous errors in identifying and recording defects. Based on our findings, more rejection actions were called for. In the processing area, we reported that inspection and labeling testing procedures were not adequate to control the amount of water added to hams during the curing process. Consequently over a period of one year six of the 10 plants reviewed may have added about 3.8 million pounds of excessive water to be sold at ham prices. Also, the standards for added substances and the frequency of sampling for laboratory analysis were not sufficient.

- o Meat Grading Studied and Evaluated - A three member Grading Panel evaluated 5,582 beef carcasses from 56 plants and 11 mainstations to provide data for the estimate of percentage error in the assignment of USDA quality (e.g., prime, choice, good, etc.) and yield grades (e.g., the projection of lean meat, fat, and bone in carcasses).

  The study showed that there is little reason to believe that much improvement in the accuracy of quality grading can be achieved under the present system of grading. In contrast, the study showed that the errors in yield grading could be reduced by continued support of USDA's efforts to develop tools (marbling photographs and instruments) to assist graders in evaluating certain grade factors and training for the graders.

FSQS was very receptive to these audits and generally agreed with the findings. In response to our recommendations, corrective actions were either initiated or completed on many of the problems presented.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

- o As a result of an investigation conducted jointly by Special Agents of the Office on Management Integrity, United States Customs Service, Drug Enforcement Administration, and Office of Inspector General, a Plant Protection and Quarantine inspector of the Animal and Plant Health Inspection Service and her husband were convicted of bribery and conspiracy. The inspector allowed drugs to pass from Mexico through the border inspection point for a price of $500 to $1500.

DEPARTMENTAL ADMINISTRATION

During the past year, we have increased our audit coverage of the administrative systems and operations of the Department. We will be continuing our efforts in these areas to determine whether or not the administrative systems and internal controls in the Department are operating effectively.

- o Consultant Services - In the Spring of 1980, OIG undertook a comprehensive audit of the Department's procurement activities as an outgrowth of a furniture procurement audit started last fall. This was further expanded to cover consultant services.

Our review of consulting services focused on the procurement practices of six agencies in the Washington metropolitan area. Of the 104 procurement and 4 personnel actions selectively reviewed, we found inadequate sole source justifications and procurements made with former employees lacking evidence that attempts were made to obtain the services competitively.

Property Management - An audit of furniture acquisition and disposition at USDA's Washington, D.C. building complex disclosed: Inadequate security and controls in the Department's main receiving and shipping area; uninventoried and unassigned excess equipment pools maintained by individual agencies; and a lack of a central inventory of the excess pools where agencies could secure equipment in lieu of new procurements. As a result of this audit the Office of Operations and Finance immediately began an operation to rid all hallways and offices in the Washington, D.C. building complex of excess furniture and equipment and transfer it to the Department pool. A freeze was also ordered on all furniture procurements within the Department except for emergencies. We have followed up to determine whether agencies were complying with the freeze. In September 1980 we released a followup audit report which showed that in spite of the freeze 14 agencies ordered more than $250,000 in prohibited furniture and equipment items. We have recommended that the Office of Operations and Finance notify the Assistant Secretaries of all furniture freeze violations so that agency administrators may take administrative action against the responsible persons. In view of the persistent nature of the problem, we are continuing audit coverage in the property management area.

EVALUATION OF CONTRACT AUDIT SERVICES

In order to determine the viability of employing auditors external to OIG, the Inspector General commissioned a cost effectiveness analysis of these contract audit services. A group of evaluators consisting of supervisory auditors from other Offices of Inspector General and Certified Public Accountants was convened to analyze and compare the audit process and product and the costs of OIG and contract audits.

The conclusions of the evaluation panel indicated no great difference between OIG and the contract auditors in the audit quality and proficiency. The cost of the OIG in-house audits, however, were substantially lower than those of the outside contractors.

OFFICE OF THE INSPECTOR GENERAL

Direct Obligations and Staff-Years by Geographic Location

Fiscal Years 1980 - 1982

Locations	1980 Actual		1981 Estimated		1982 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
California	$ 3,939,359	119	$ 4,504,000	119	$ 4,876,000	129
District of Columbia ..	6,240,916	115	7,118,000	115	7,706,000	119
Georgia	5,970,364	164	6,797,000	164	7,357,000	173
Illinois	4,045,070	122	4,625,000	122	5,007,000	131
Maryland	4,531,374	142	5,148,000	142	5,572,000	152
Missouri	4,320,482	138	4,906,000	138	5,311,000	147
New York	1,938,807	57	2,373,000	57	2,569,000	66
Texas	4,157,584	111	4,745,000	111	5,137,000	120
Total	35,143,956	968	40,216,000	968	43,535,000	1,037



U.S. Department of Agriculture

1982 BUDGET

EXPLANATORY NOTES

BUDGET AMENDMENTS

Preface

USDA Budget Revisions

On February 18, 1981, the President presented a Program for Economic Recovery and announced proposals for major reductions in Federal spending for FY 1981 and 1982. Since that time a number of additional program revisions have been developed and are included in the President's revised budget submitted to Congress on March 10, 1981.

The program changes proposed in the President's revised budget will have the following impact on USDA program levels:

	(Dollars in Millions) Program Level	
	FY 1981	FY 1982
JANUARY BUDGET	55,097	54,761
PROGRAM LEVEL CHANGES:		
Farm Programs:		
Farm Loans	-114	-907
Emergency Farm Loans	--	-400
Interest Costs	-84	-212
Conservation Cost-Sharing	--	-55
Research and Education	--	+20
Total, Farm Programs	-198	-1,554
Rural Development Programs:		
Utility Loans	-203	-334
Housing Loans	-316	-649
Community Development Loans	-665	-905
Grants, Contracts and Interest Costs	-34	-213
Total, Rural Development Programs.	-1,218	-2,101
Domestic Food and Nutrition Programs	-185	-3,710
Other Agricultural Programs:		
PL 480	--	-100
Forestry Resources	--	-60
Soil and Water Resources	--	-12
General Reductions and Minor Program Changes	-64	-77
Total, Other Agricultural Programs	-64	-249
Total Program Level Changes	-1,665	-7,614
REVISED BUDGET	53,432	47,147

The revised budget proposes a reduction of $7.6 billion (14%) in program level in FY 1982. The program revisions will result in a net reduction of over $4 billion in budget authority and outlays in FY 1982.

The program revisions are designed to reduce Federal spending principally by:

- Reducing benefits of entitlement programs while preserving benefits for the truly needy;
- Reducing the Federal government role in the nation's credit activities;
- Reducing subsidies provided through Federal programs by increasing loan rates to cost of Treasury borrowing and charging user fees for services provided; and
- Reducing the general levels of government spending and employment.

A more complete list of the changes in the level of programs carried out by agencies of the Department of Agriculture follows:

Program Levels by Agency

Outlays by Agency

Budget Authority by Agency

U.S. DEPARTMENT OF AGRICULTURE
Program Levels by Agency
(Dollars in Millions)

AGENCY	1980	1981 Jan. Budget	1981 Reduction	1981 Revised Estimated	1982 Jan Budget	1982 Reduction	1982 Revised Budget
CCC:							
Commodity Loans	4,229	3,578	-25	3,553	4,620	-100	4,520
Commodity Payments	711	880	--	880	513	--	513
Commodity Purchases	2,643	1,861	--	1,861	1,287	--	1,287
Export Credit	1,390	2,018	--	2,018	2,000	--	2,000
Cost of Interest subsidies	518	618	-84	534	912	-212	700
Total, CCC	9,491	8,955	-109	8,846	9,332	-312	9,020
Agricultural Stabilization and Conservation Service	650	621	-2	619	642	-60	582
Federal Crop Insurance Corporation	12	80	-1	79	194	-1	193
Animal and Plant Health Inspection Service	251	282	-3	279	295	-1	294
Science and Education Administration	853	958	-6	951	1,017	+13	1,030
Economics and Statistics Service	86	95	-2	93	106	-6	100
World Food and Agricultural Outlook and Situation Board	1	2	--	2	2	--	2
Federal Grain Inspection Service	56	63	-6	57	68	-5	63
Agricultural Marketing Service	52	56	-1	55	64	-3	61
Office of Transportation	2	2	--	2	3	--	3
Agricultural Cooperatives Service	4	5	--	5	5	--	5
P.L. 480 Loans & Food Donations	1,600	1,639	--	1,639	1,741	-100	1,641
Foreign Agricultural Service	55	62	-1	61	71	-1	70
Office of International Cooperation and Development	12	12	--	12	18	-3	15
Food Safety and Quality Service	348	375	-9	366	403	-17	386
Section 32 Price Support Activity	426	498	--	498	590	-74	516
Food and Nutrition Service	13,464	15,701	-189	15,512	17,575	-3,641	13,934
Farmers Home Administration:							
Farm Loans	1,909	1,905	-89	1,816	3,107	-807	2,300
Emergency Loans	4,452	6,050	--	6,050	2,000	-400	1,600
Housing Loans	3,774	4,127	-316	3,811	4,376	-649	3,727
Community Development Loans	2,014	2,266	-665	1,601	1,335	-905	430
Grants and Contracts	821	806	-4	802	743	-108	635
Cost of Interest Subsidies	685	945	-30	915	1,322	-105	1,217
Salaries and Expenses	236	258	-7	251	287	-4	283
Total, FmHA	13,890	16,357	-1,111	15,246	13,170	-2,978	10,192
Rural Electrification Administration							
Loans	7,057	6,464	-203	6,261	6,464	-334	6,130
Salaries and Expenses	27	29	-1	28	30	--	30
Total, REA	7,083	6,493	-204	6,289	6,494	-334	6,160
Soil Conservation Service	539	595	-7	588	567	-14	553
Forest Service	2,250	2,166	-11	2,155	2,310	-74	2,236
Office of the Secretary	5	5	--	5	5	--	5
Departmental Administration	9	10	--	10	16	--	16
Office of Budget, Planning and Evaluation	3	4	--	4	4	--	4
Office of Governmental and Public Affairs	8	9	--	9	11	--	11
Office of the General Counsel	11	12	--	12	14	--	14
Office of the Inspector General	36	40	-2	38	44	-3	41
TOTAL USDA	51,197	55,097	-1,665	53,432	54,761	-7,614	47,147

OBPE/BD 3/12/81

UNITED STATES DEPARTMENT OF AGRICULTURE
Outlays
($ in thousands)

	1980	1981 Jan. Budget	1981 Reduction	1981 Revised Estimate	1982 Jan. Budget	1982 Reduction	1982 Revised Budget
Departmental Administration							
Office of the Secretary	5,338	4,822	--	4,822	5,300	-50	5,250
Departmental Administration	11,657	10,228	-507	9,721	15,558	-307	15,251
Office of Budget, Planning and Evaluation	3,282	3,750	-101	3,649	4,450	-180	4,270
Office of Governmental and Public Affairs	7,850	8,987	-261	8,726	10,803	-4	10,799
Office of the General Counsel	11,811	12,260	-239	12,021	13,509	-30	13,479
Office of the Inspector General	34,241	39,550	-2,119	37,431	42,843	-2,752	40,091
Economics, Policy Analysis and Budget							
Economics and Statistics Service	87,264	94,712	-1,809	92,903	105,390	-5,679	99,711
World Food and Agricultural Outlook and Situation Board	1,215	1,783	-89	1,694	1,596	-15	1,581
Food and Consumer Services							
Food and Nutrition Service	13,555,443	15,535,368	-102,751	15,432,617	17,116,973	-3,470,607	13,646,366
Marketing and Transportation Service							
Agricultural Marketing Service	54,037	57,203	-989	56,214	38,694	-1,174	37,520
Animal and Plant Health Inspection Service	250,517	276,780	-2,960	273,820	296,204	-1,222	294,982
Federal Grain Inspection Service	25,550	29,751	-902	28,849	32,141	-25,262	6,879
Office of Transportation	1,670	2,134	-128	2,006	3,015	-92	2,923
Agricultural Coopetatives Service	3,829	4,759	-209	4,550	4,826	-5	4,821
Food Safety and Quality Service	360,263	371,609	-14,372	357,237	404,900	-18,062	386,838
Section 32	460,987	370,950	--	370,950	365,400	-86,800	278,600
International Affairs and Commodity Programs							
Agricultural Stabilization and Conservation Service	427,109	471,413	-2,643	468,770	440,847	-17,632	423,215
Commodity Credit Corporation	2,938,767	-15,306	-21,000	-36,306	2,112,250	-312,001	1,800,249
Federal Crop Insurance Corporation	38,433	265,149	+98,430	363,579	182,812	-585	182,227
Foreign Agricultural Service	55,132	60,861	-821	60,040	70,428	-789	69,639
Office of International Cooperation and Development	8,485	15,396	-72	15,324	18,426	-3,286	15,140
Public Law 480	886,336	1,305,045	-76,115	1,228,930	1,263,100	-100,000	1,163,100
Rural Development							
Farmers Home Administration	3,036,980	-560,728	-40,780	-601,508	3,195,748	-119,162	3,076,586
Rural Electrification Administration	26,543	47,849	-7,715	40,134	41,699	-14,155	27,544
Natural Resources and Environment							
Forest Service	2,083,158	2,156,937	-11,053	2,145,884	2,428,667	-163,771	2,264,896
Soil Conservation Service	586,341	635,904	-5,732	630,172	584,278	-9,868	574,410
Science and Education							
Science & Education Administration	841,388	956,298	-6,283	950,015	1,006,369	+13,558	1,019,927
Receipts	-1,248,706	-1,266,628	+3,833	-1,262,795	-1,767,995	+4,222	-1,763,773
TOTAL, United States Department of Agriculture	24,554,920	20,896,836	-197,387	20,699,449	28,038,231	-4,335,710	23,702,521

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UNITED STATES DEPARTMENT OF AGRICULTURE

Budget Authority

($ in thousands)

	1980	1981 Jan. Budget	1981 Reduction	1981 Revised Estimate	1982 Jan. Budget	1982 Reduction	1982 Revised Budget
Departmental Administration							
Office of the Secretary	4,674	4,920	--	4,920	5,408	-50	5,358
Departmental Administration	8,869	10,342	-507	9,835	15,915	-307	15,608
Office of Budget, Planning and Evaluation	3,349	3,895	-101	3,794	4,527	-180	4,347
Office of Governmental and Public Affairs	8,032	9,146	-261	8,885	11,012	-4	11,008
Office of the General Counsel	11,493	12,519	-239	12,280	13,748	-30	13,718
Office of the Inspector General	35,941	40,216	-2,164	38,052	43,535	-2,707	40,828
Economics, Policy Analysis and Budget							
Economics and Statistics Service	85,626	95,219	-1,820	93,399	105,938	-5,706	100,232
World Food and Agricultural Outlook and Situation Board	1,045	1,825	-94	1,731	1,568	-16	1,552
Food and Consumer Services							
Food and Nutrition Service	13,463,854	15,701,340	-189,521	15,511,819	17,574,844	-3,640,756	13,934,088
Marketing and Transportation Service							
Agricultural Marketing Service	52,106	56,134	-989	55,145	38,681	-611	38,070
Animal and Plant Health Inspection Service	251,002	281,741	-2,960	278,781	295,121	-1,222	293,899
Federal Grain Inspection Service	23,971	25,964	-902	25,062	31,141	-25,262	5,879
Office of Transportation	1,662	2,134	-134	2,000	3,015	-92	2,923
Agricultural Cooperatives Service	3,899	4,756	-211	4,545	4,845	-5	4,840
Food Safety and Quality Service	347,605	374,868	-9,205	365,663	403,404	-17,229	386,175
Section 32	311,163	383,012	--	383,012	463,346	-86,800	376,546
International Affairs and Commodity Programs							
Agricultural Stabilization and Conservation Service	494,780	454,177	-2,643	451,534	463,775	-58,095	405,680
Commodity Credit Corporation	3,095,610	3,334,407	--	3,334,407	2,336,637	--	2,336,637
Federal Crop Insurance Corporation	12,000	230,309	-1,570	228,739	543,918	-585	543,333
Foreign Agricultural Service	54,610	61,692	-876	60,816	70,428	-734	69,694
Office of International Cooperation and Development	11,809	11,940	-76	11,864	18,417	-3,282	15,135
Public Law 480	886,336	1,305,045	-76,115	1,228,930	1,263,100	-100,000	1,163,100
Rural Development							
Farmers Home Administration	3,297,730	1,735,103	-11,677	1,723,426	4,199,318	-124,904	4,074,414
Rural Electrification Administration	36,752	61,580	-17,235	44,345	31,702	-1,037	30,665
Natural Resources and Environment							
Forest Service	2,249,617	2,166,088	-11,053	2,155,035	2,309,804	-73,771	2,236,033
Soil Conservation Service	539,149	594,634	-6,277	588,357	567,254	-14,715	552,539
Science and Education							
Science & Education Administration	853,435	957,619	-6,283	951,336	1,016,765	+13,558	1,030,323
Receipts	-1,248,706	-1,266,628	+3,833	-1,262,795	-1,767,995	+4,222	-1,763,773
TOTAL, United States Department of Agriculture	24,897,413	26,653,997	-339,080	26,314,917	30,069,171	-4,140,320	25,928,851

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UNITED STATES DEPARTMENT OF AGRICULTURE

Table 3 - Statement of Increases and Decreases in Budget Authority, 1982
Budget Estimates Compared with 1981 Estimates
(Dollars in Thousands)

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Office of the Secretary:							
Program and Policy Direction and Coordination:							
Office of the Secretary	$1,946	- -	$1,946	$2,354	-$50	$2,304	+$358
Under/Assistant Secretaries	2,336	- -	2,336	2,385	- -	2,385	+49
Regulatory hearings and decisions	638	- -	668	669	- -	669	+31
Total, Office of the Secretary	4,920	- -	4,920	5,408	-50	5,358	+438
Departmental Administration:							
Budget, Planning and Evaluation	3,895	-101	3,794	4,527	-180	4,347	+553
Operations and Finance	3,906	-278	3,628	8,847	-165	8,682	+5,054
Personnel	2,608	-100	2,508	2,795	-83	2,712	+204
Equal Opportunity	2,632	-100	2,532	2,931	-44	2,887	+355
Safety and Health Management	907	-29	878	942	-15	927	+49
Small and Disadvantaged Business Utilization	289	- -	289	400	- -	400	+111
Total, Departmental Administration	14,237	-608	13,629	20,442	-487	19,955	+6,326
Office of Governmental and Public Affairs:							
Public Affairs	8,082	-186	7,896	9,752	+146	9,898	+2,002
Congressional Affairs	587	-41	546	697	-107	590	+44
Intergovernmental Affairs	477	-34	443	563	-43	520	+77
TOTAL, Office of Governmental and Public Affairs	9,146	-261	8,885	11,012	-4	11,008	+2,123
Office of the Inspector General:							
Audits and Investigations	40,216	-2,164	38,052	43,535	-2,707	40,828	+2,776
Office of the General Counsel:							
Legal services	12,519	-239	12,280	13,748	-30	13,718	+1,438
Federal Grain Inspection Service:							
Inspection administration and supervision	13,524	-471	13,053	16,124	-678	15,446	+2,393
Weighing administration and supervision	6,955	-241	6,714	8,969	-314	8,655	+1,941
Standardization activities	2,966	-103	2,863	3,348	-59	3,289	+426
Compliance activities	2,519	-87	2,432	2,700	-110	2,590	+158
Total, Federal Grain Inspection Service	25,964	-902	25,062	31,141	-1,161	29,980	+4,918
Science and Education Administration:							
Agricultural Research:							
Expanded basic agricultural research	191,843	- -	191,843	197,343	- -	197,343	+5,500
Integrated pest management (IPM) and biocontrol of pests	7,999	- -	7,999	8,499	- -	8,499	+500

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Science and Education Administration: (Cont.)							
Agricultural Research: (Continued)							
Support of action agency requirements...	$39,124	- -	$39,124	$45,614	- -	$45,614	+$6,490
Germplasm resources	10,309	- -	10,309	10,909	+$1,200	12,109	+1,800
Pesticide impact assessment	675	- -	675	1,075	- -	1,075	+400
Research on minor use pesticides	868	- -	868	1,068	- -	1,068	+200
Tropical and subtropical research	2,865	- -	2,865	4,025	- -	4,025	+1,160
Research on aerospace technology	5,005	- -	5,005	6,505	- -	6,505	+1,500
Land and water research in support of the Resource Conservation Act	3,190	- -	3,190	5,790	- -	5,790	+2,600
Research on acid precipitation	- -	- -	- -	150	- -	150	+150
Non-point source pollution	8,301	- -	8,301	9,551	- -	9,551	+1,250
Energy retrofit of facilities	2,500	- -	2,500	3,500	- -	3,500	+1,000
Soil and water Conservation Research in Alaska	138	- -	138	438	- -	438	+300
Human nutrition research	31,595	- -	31,595	33,095	- -	33,095	+1,500
National arboretum security	162	- -	162	562	- -	562	+400
Animal protection research	23,096	- -	23,096	24,246	- -	24,246	+1,150
Animal reproduction efficiency research.	6,381	- -	6,381	6,381	+1,500	7,881	+1,500.
Water use efficiency research	4,455	- -	4,455	4,455	+1,000	5,455	+1,000
Tobacco research	5,190	- -	5,190	4,142	- -	4,142	-1,048
Research on stored tobacco insects	182	- -	182	- -	- -	- -	-182
Contagious Equine Metritis	100	- -	100	- -	- -	- -	-100
Industrial uses of farm products	6,993	- -	6,993	5,214	+1,779	6,993	- -
Wool and mohair	1,599	- -	1,599	524	- -	524	-1,075
Reseach on Mt. Helens' eruptions	1,000	- -	1,000	- -	- -	- -	-1,000
Nonrecurring construction items	12,100	- -	12,100	- -	- -	- -	-12,100
All other	66,879	-$5,718	61,161	83,795	-5,791	78,004	+16,843
Total, Agricultural Research	432,549	-5,718	426,831	456,881	-312	456,569	+29,738
Cooperative Research:							
Payments under the Hatch Act	128,615	- -	128,615	146,609	- -	146,609	+17,994
Cooperative forestry research	10,774	- -	10,774	12,281	- -	12,281	+1,507
Payments to 1890 Colleges and Tuskegee Institute	19,270	- -	19,270	21,992	- -	21,992	+2,722
Special research grants	18,226	- -	18,226	20,757	+5,000	25,757	+7,531
Competitive research grants	16,000	- -	16,000	29,000	-3,000	26,000	+10,000
Animal health and disease research	6,500	- -	6,500	- -	- -	- -	-6,300
Federal administration (direct appropriation)	1,698	-186	1,512	1,837	-288	1,549	+37
Total, Cooperative Research	201,083	-186	200,897	232,476	+1,712	234,188	+33,291
Extension Activities:							
Smith-Lever:							
For Sections 3(b) and (c)	205,448	- -	205,448	214,259	+11,117	225,376	+19,928
Section 3d:							
Pest management	7,435	- -	7,435	8,031	- -	8,031	+596
Farm safety	1,020	- -	1,020	- -	- -	- -	-1,020

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Extension Activites (Cont.)							
Smith-Lever:							
Section 3d:							
Energy	$300	- -	$300	$324	- -	$324	+$24
Urban gardening	3,000	- -	3,000	- -	- -	- -	-3,000
Nonpoint source pollution	- -	- -	- -	1,404	- -	1,404	+1,404
Food and nutrition education	55,017	- -	55,017	59,424	+$930	60,354	+5,337
Pesticide impact assessment	1,805	- -	1,805	1,950	- -	1,950	+145
1890 Colleges and Tuskegee Institute	11,250	- -	11,250	11,771	+570	12,341	+1,091
Bankhead-Jones	11,500	- -	11,500	- -	- -	- -	-11,500
D. C. extension	910	- -	910	983	- -	983	+73
Federal administration and coordination	6,355	-$271	6,084	6,964	-349	6,615	+531
Total, Extension Activities	304,040	-271	303,769	305,110	+12,268	317,378	+13,609
Technical Information Systems:							
Increased operating costs	8,930	-108	8,822	9,381	-110	9,271	+449
Building and Facilities	- -	- -	- -	1,900	- -	1,900	+1,900
Total, SEA	946,602	-6,283	940,319	1,005,748	13,558	1,019,306	+78,987
Animal and Plant Health Inspection Service:							
Agricultural quarantine inspection	41,398	-262	41,136	45,252	-195	45,057	+3,921
Bio-control of plant pests	3,481	-18	3,463	5,415	-23	5,392	+1,929
Pest detection	2,311	-27	2,284	3,662	-16	3,646	+1,362
Animal welfare	4,541	-31	4,510	5,526	-24	5,502	+992
Brucellosis eradication	83,708	-293	83,415	87,375	-376	86,999	+3,584
Cattle ticks	4,928	-42	4,886	6,646	-28	6,618	+1,732
Emergency programs	3,190	-22	3,168	4,652	-20	4,632	+1,464
Import-export inspection	5,959	-51	5,908	6,416	-28	6,388	+480
Screwworm	44,802	-1,747	43,055	53,405	-230	53,175	+10,120
Contingency fund	2,500	- -	2,500	5,000	- -	5,000	+2,500
Boll weevil	1,729	-7	1,722	746	-3	743	-979
Citrus blackfly	1,808	- -	1,808	- -	- -	- -	-1,808
Imported fire ant	6,000	- -	6,000	- -	- -	- -	-6,000
Japanese beetle	165	- -	165	117	- -	117	-48
Mexican fruit fly	1,474	-9	1,465	1,414	-6	1,408	-57
Miscellaneous plant diseases and pests	605	-2	603	492	-2	490	-113
Multi-flora rose	200	- -	200	- -	- -	- -	-200
Noxious weeds	1,670	- -	1,670	- -	- -	- -	-1,670
West Indian sugarcane root borer	225	- -	225	- -	- -	- -	-225
Poultry diseases	1,034	-7	1,027	744	-3	741	-286
Pseudorabies	559	-2	557	267	-1	266	-291
Swine disease surveillance	3,310	-23	3,287	3,026	-13	3,013	-274
Construction of facilities	6,986	- -	6,986	3,251	- -	3,251	-3,735
Animal damage control study	500	- -	500	- -	- -	- -	-500
All other	55,998	-417	55,581	58,917	-254	58,663	+3,082
Total, Animal and Plant Health Inspection Service	279,081	-2,960	276,121	292,323	-1,222	291,101	+14,980

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Food Safety and Quality Service:							
Slaughter inspection	$162,633	-$3,128	$159,505	$171,074	-$5,206	$165,868	+$6,363
Processing inspection	78,257	-1,505	76,752	80,739	-1,712	79,027	+2,275
Import-export inspection	4,760	-92	4,668	5,023	-104	4,919	+251
Compliance	7,092	-126	6,966	7,785	-318	7,467	+501
Laboratory services	14,768	-266	14,502	25,569	-4,349	21,220	+6,718
Grants to states	31,636	- -	31,636	34,495	- -	34,495	+2,859
Commodity purchase services	2,495	-47	2,448	2,691	-57	2,634	+186
Egg products inspection	7,726	-139	7,587	8,390	-168	8,222	+635
Voluntary commodity inspection & grading	4,311	-69	4,242	5,491	-1,093	4,398	+156
Total, Food Safety and Quality Service	313,678	-5,372	308,306	341,257	-13,007	328,250	+19,944
Economics and Statistics Service:							
Development of natural resource data system	2,200	- -	2,200	3,200	- -	3,200	+1,000
Improved data and monitoring of farm costs of production	1,600	- -	1,600	2,600	- -	2,600	+1,000
Research on markets and regulations	3,200	- -	3,200	4,700	- -	4,700	+1,500
Farm work force data, research, and analysis	140	- -	140	1,240	- -	1,240	+1,100
Pesticide impact assessments	1,050	- -	1,050	1,270	- -	1,270	+220
Research to improve estimates of the world demand for U.S. agricultural commodities	1,400	- -	1,400	1,830	- -	1,830	+430
Program of crop data improvement	1,770	- -	1,770	2,535	- -	2,535	+765
Aerospace remote sensing - AgRISTARS	7,000	- -	7,000	7,820	-820	7,000	- -
All other	76,814	-1,820	74,994	80,698	-4,886	75,812	+818
Total, Economics and Statistics Service	95,174	-1,820	93,354	105,893	-5,706	100,187	+6,833
Agricultural Cooperative Service:							
Research and technical assistance to agricultural cooperatives	4,711	-211	4,500	4,800	-5	4,795	+295
World Food and Agricultural Outlook and Situation Board:							
Restore one-time Congressional reduction in personnel costs resulting from hiring limitation In FY 1981	- -	- -	- -	200	- -	200	+200
Colocation with ESS Crop Reporting Board to establish joint lockup	500	- -	500	- -	- -	- -	-500
All other	1,325	-94	1,231	1,368	-16	1,352	+121
Total, World Food and Agricultural Outlook and Situation Board	1,825	-94	1,731	1,568	-16	1,552	-179

	1981			1982			Increase or Decrease
	Jan. Budget	Change	Revised Budget	Jan. Budget	Change	Revised Budget	
Agricultural Marketing Service:							
Marketing Services:							
Market news	$14,825	-$260	$14,565	$15,524	-$332	$15,192	+$627
Administration of Packers and Stockyards Act	9,167	-196	8,971	9,648	-280	9,368	+397
Grading and standardization	19,977	-365	19,612	21,412	-592	20,820	+1,208
Regulatory activities	5,523	-116	5,407	5,792	-173	5,619	+212
Wholesale market development	1,447	-29	1,418	1,498	-35	1,463	+45
Market supervision and assistance	932	-23	909	963	-26	937	+28
Total, Marketing Services	51,871	-989	50,882	54,837	-1,438	53,399	+2,517
Payments to States and Possessions	1,600	--	1,600	--	--	--	-1,600
Total, Agricultural Marketing Service	53,471	-989	52,482	54,837	-1,538	53,399	+917
Office of Transportation:							
Agricultural transportation experts in U.S. DOT Field Offices	266	--	266	371	--	371	+105
Analyze and disseminate information on agricultural transportation problems	--	--	--	470	--	470	+470
Implementation of the agreement on the Transportation of Perishables Treaty	--	--	--	230	--	230	+230
All other	1,868	-134	1,734	1,944	-92	1,852	+118
Total, Office of Transportation	2,134	-134	2,000	3,015	-92	2,923	+923
Agricultural Stabilization and Conservation Service:							
Salaries and Expenses:							
Restoration of CCC contingency reserve	3,786	--	3,786	4,112	--	4,112	+326
Contracting services	--	--	--	1,400	--	1,400	+1,400
Increase of staff years in States and and other offices	--	--	--	1,563	-1,563	--	--
All other	373,063	-1,879	371,184	389,448	-3,239	386,209	+15,025
Total, Salaries and Expenses	376,849	-1,879	374,970	396,523	-4,802	391,721	+16,751
Portion to be financed through transfers from CCC	166,872	-736	166,136	177,948	-1,707	176,241	+10,105
Total, Direct Appropriation, Salaries and Expenses	209,977	-1,143	208,834	218,575	-3,095	215,480	+6,646
Dairy and Beekeeper Indemnity Programs:							
Indemnity payments to dairy farmers	150	--	150	150	--	150	--
Indemnity payments to manufacturers of dairy products	50	--	50	50	--	50	--
Indemnity payments to beekeepers	1,500	--	1,500	--	--	--	-1,500
Total, Dairy and Beekeeper Indemnity Programs	1,700	--	1,700	200	--	200	-1,500
Rural Clean Water Program	20,000	--	20,000	20,000	--	20,000	--
Agricultural Conservation Program	190,000	--	190,000	190,000	-40,000	150,000	-40,000
Forestry Incentives Program:							
Cost-share assistance to landowners	11,250	--	11,250	13,500	-4,500	9,000	-2,250
Technical assistance (allocation to Forest Service)	1,250	--	1,250	1,500	-500	1,000	-250
Total, Forestry Incentives Program	12,500	--	12,500	15,000	-5,000	10,000	-2,500

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Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Water Bank Act Program:							
Annual payments to landowners and operators	$10,000	- -	$10,000	$10,000	-$10,000	- -	-$10,000
Emergency Conservation Program:							
Emergency cost-sharing assistance to farmers	10,000	- -	10,000	10,000	- -	$10,000	- -
Total, Agricultural Stabilization and Conservation Service	454,177	-$1,143	453,034	463,775	-58,095	405,680	-47,354
Federal Crop Insurance Corporation:							
Administrative and Operating Expenses:							
Underwriting, actuarial and program development	6,731	-395	6,336	10,241	-6	10,235	+3,899
Marketing and collections	11,350	-543	10,807	63,471	-285	63,186	+52,379
Contract servicing and claims	13,047	-632	12,415	62,750	-294	62,456	+50,041
Total, Administrative and Operating Expenses	31,128	-1,570	29,558	136,462	-585	135,877	+106,319
FCIC Fund:							
Subscription to capital stock	- -	- -	- -	350,000	- -	350,000	+350,000
Premium subsidy	- -	- -	- -	57,456	- -	57,456	+57,456
Total, FCIC Fund	- -	- -	- -	407,456	- -	407,456	+407,456
Total, Federal Crop Insurance Corporation	31,128	-1,570	29,558	543,918	-585	543,333	+513,775
Commodity Credit Corporation:							
Reimbursement for net realized losses	3,299,887	- -	3,299,887	2,295,856	- -	2,295,856	-1,004,031
Limitation on administrative expenses	(52,750)	- -	(52,750)	(58,000)	- -	(58,000)	(+5,250)
Total, Commodity Credit Corporation	3,299,887	- -	3,299,887	2,295,856	- -	2,295,856	-1,004,031
Farmers Home Administration:							
Rural Housing Insurance Fund:							
Loan levels:							
Direct loans	(24,000)	(- -)	(24,000)	(25,000)	(-1,000)	(24,000)	(- -)
Insured loans	(4,075,600)	(- -)	(4,075,600)	(4,345,600)	(-645,000)	(3,700,600)	(375,000)
Guaranteed loans	(25,000)	(- -)	(25,000)	- -	- -	- -	(-25,000)
Reimbursement for losses	615,318	(- -)	615,318	805,967	-1,000	804,967	+189,649
Program levels:							
Rent supplement authorization	(403,000	(- -)	(403,000)	(398,000)	(- -)	(398,000)	(-5,000)
Home ownership assistance	(- -)	(- -)	(- -)	(100,000)	(-100,000)	(- -)	(- -)
Total, Rural Housing Insur. Fund.	615,318	- -	615,318	805,967	-1,000	804,967	+189,649
Agricultural Credit Insurance Fund:							
Reimbursement for losses	297,032	- -	297,032	464,083	- -	464,083	+167,051
Loan levels:							
Real estate loans	(999,600	(- -)	(999,600)	(1,577,200)	(-678,000)	(899,200)	(-100,400)
Operating loans	(875,000)	(- -)	(875,000)	(1,500,000)	(125,000)	(1,375,000)	(+500,000)

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Loan levels (Cont.):							
Soil conservation loans	($30,000)	(- -)	($30,000)	($30,000)	(-$4,000)	($26,000)	(-$4,000)
Emergency loans	(6,050,000)	(- -)	(6,050,000)	(2,000,000)	(-400,000)	(1,600,000)	(-4,450,000)
Total, Agricultural Credit Insurance Fund	297,032	- -	297,032	464,083	- -	464,083	+167,051
Rural Development Insurance Fund:							
Reimbursement for losses	143,282	- -	143,282	204,040	- -	204,040	+60,758
Loan levels:							
Water and sewer facility loans	(750,000)	- -	(750,000)	- -	- -	- -	(-750,000)
Industrial development loans	(741,000)	- -	(741,000)	(500,000)	(-500,000)	- -	(-741,000)
Community facility loans	(260,000)	- -	(260,000)	(260,000)	(-130,000)	(130,000)	(-130,000)
Total, Rural Development Insurance Fund	143,282	- -	143,282	204,040	- -	204,040	+60,758
Rural Water and Waste Disposal Grants:							
Water supply	146,000	- -	146,000	- -	- -	- -	-146,000
Waste disposal	44,000	- -	44,000	- -	- -	- -	-44,000
Combination water and waste disposal	10,000	- -	10,000	- -	- -	- -	-10,000
Total, Rural Water and Waste Disposal Grants	200,000	- -	200,000	- -	- -	- -	-200,000
Very Low-Income Housing Repair Grants:							
Rural housing repair for the elderly	25,000	- -	25,000	25,000	- -	25,000	- -
Rural Housing for Domestic Farm Labor	25,000	- -	25,000	25,000	- -	25,000	- -
Mutual and Self-Help Housing	- -	- -	- -	5,000	- -	5,000	+5,000
Self-Help Housing Land Development Fund:							
Mutual and self-help housing site loans	1,000	- -	1,000	4,000	-3,000	1,000	- -
Rural Community Fire Protection Grants	3,500	- -	3,500	- -	- -	- -	-3,500
Rural Development Planning Grants	5,000	- -	5,000	6,000	-6,000	- -	-5,000
Rural Housing Supervisory Assistance Grants	1,500	- -	1,500	2,000	-2,000	- -	-1,500
Rural Development Grants	5,000	- -	5,000	- -	- -	- -	-5,000
Salaries and Expenses	261,764	-$7,677	254,087	290,534	-4,198	286,336	+32,249
Transfer from loan accounts	-3,500	- -	-3,500	-3,500	- -	-3,500	- -
Total, Direct Appropriation, Salaries and Expenses	258,264	-7,677	250,587	287,034	-4,198	282,836	+32,249
Total, FmHA	1,579,896	-7,677	1,572,219	1,828,124	-16,198	1,811,926	+239,707
Rural Electrification Administration:							
Rural Electrification and Telephone Revolving Fund:							
Rural Electrification Program:							
Insured loans	(850,000)	(- -)	(850,000)	(850,000)	(-150,000)	(700,000)	(-150,000)
Loan guarantee commitments	(5,000,000)	(- -)	(5,000,000)	(5,000,000)	(+100,000)	(5,100,000)	(+100,000)
Total, Electrification program	(5,850,000)	(- -)	(5,850,000)	(5,850,000)	(-50,000)	(5,800,000)	(-50,000)

	1981			1982			Increase or Decrease
	Jan. Budget	Change	Revised Budget	Jan. Budget	Change	Revised Budget	
Rural Telephone Program:							
Insured loans	($250,156)	(- -)	($250,156)	($250,000)	(-$250,000)	- -	(-$250,156)
Loan guarantee commitments	(145,000)	(- -)	(145,000)	(145,000)	(- -)	($145,000)	(- -)
Total, Rural Telephone Program	(395,156)	(- -)	(395,156)	(395,000)	(-250,000)	(145,000)	(-250,156)
Total, Rural Electrification and Telephone Revolving Fund	(6,245,156)	(- -)	(6,245,156)	(6,245,000)	(-300,000)	(5,945,000)	(-300,156)
Rural Telephone Bank:							
Capitalization	(22,500)	(- -)	(22,500)	(- -)	(- -)	(- -)	(-22,500)
Loan Level	(185,000)	(- -)	(185,000)	(185,000)	(- -)	(185,000	(- -)
Total, Rural Telephone Bank	(207,500)	- -	(207,500)	(185,000)	- -	(185,000	(-22,500)
Rural Communication Development Fund:							
Community antenna television loans:							
Insured loans	(31,432)	(- -)	(31,432)	(- -)	(- -)	(- -)	(-31,432)
Guarantee commitments	(2,568)	(- -)	(2,568)	(34,000)	(-34,000)	(- -)	(-2,568)
Total, Rural Communication Development Fund	(34,000)	(- -)	(34,000)	(34,000)	(-34,000)	(- -)	(-34,000)
Salaries and Expenses	29,203	-894	28,309	30,152	-479	29,673	+1,364
Total, Rural Electrification Administration	29,203	-894	28,309	30,152	-479	29,673	+1,364
Soil Conservation Service:							
Conservation Operations:							
Technical assistance	235,789	-2,708	233,081	237,800	-875	236,925	+3,844
Inventory and monitoring	17,063	- -	17,063	17,762	- -	17,762	+699
Soil surveys	49,005	-571	48,434	50,073	-185	49,888	+1,454
Snow survey and water forecasting	3,581	- -	3,581	3,663	- -	3,663	+82
Operation of plant materials centers	3,145	- -	3,145	3,604	- -	3,604	+459
Resource appraisal and program development	5,605	- -	5,605	5,797	- -	5,797	+192
Total, Conservation Operations	314,188	-3,279	310,909	318,699	-1,060	317,639	+6,730
River Basin Surveys and Investigations:							
USDA cooperative studies	13,520	-149	13,371	11,670	- -	11,670	-1,701
Flood plain management assistance	1,725	-19	1,706	1,734	- -	1,734	+28
Interagency coordination and program formulation	3,282	-36	3,246	2,761	- -	2,761	-485
Total, River Basin Surveys and Investigations	18,527	-204	18,323	16,165	- -	16,165	-2,158
Watershed Planning:							
Reduction in ongoing planning level	10,813	- -	10,813	8,690	-2,000	6,690	-4,123

	1981			1982			Increase or Decrease
	Jan. Budget	Change	Revised Budget	Jan. Budget	Change	Revised Budget	
Watershed and Flood Prevention Operations:							
Watershed operations authorized by PL-534	$24,487	-$987	$23,500	$19,490	-$1,056	$18,434	-$5,066
Emergency watershed protection operations	10,000	- -	10,000	10,000	- -	10,000	- -
Small watersheds authorized by PL-566	159,398	-374	159,024	142,890	-9,279	133,611	-25,413
Total, Watershed and Flood Prevention Operations	193,885	-1,361	192,524	172,380	-10,335	162,045	-30,479
Resource Conservation and Development:							
Technical assistance	17,613	-1,419	16,194	13,168	-1,266	11,902	-4,292
Financial assistance	17,642	- -	17,642	14,750	- -	14,750	-2,892
Loan services	224	-14	210	214	-54	160	-50
Total, Resource Conservation and Development	35,479	-1,433	34,046	28,132	-1,320	26,812	-7,234
Great Plains Conservation Program:							
Cost-sharing assistance	10,994	- -	10,994	12,194	- -	12,194	+1,200
Cost-share program and contract administration	3,094	- -	3,094	3,230	- -	3,230	+136
Technical assistance	6,576	- -	6,576	6,864	- -	6,864	+288
Total, Great Plains Conservation Program	20,664	- -	20,664	22,288	- -	22,288	+1,624
Total, Soil Conservation Service	593,556	-6,277	587,279	566,354	-14,715	551,639	-35,640
Food and Nutrition Service:							
Child Nutrition Programs:							
School lunch program	753,500	- -	753,500	816,700	-2,500	814,200	+60,700
Special assistance	1,544,500	- -	1,544,500	1,723,800	-8,600	1,715,200	+170,700
School breakfast program	319,100	- -	319,100	358,900	-2,100	356,800	+37,700
Equipment assistance program	15,000	- -	15,000	15,000	-15,000	- -	-15,000
State administrative expenses	38,226	- -	38,226	44,538	- -	44,538	+6,312
Summer food service program	121,700	- -	121,700	136,300	-1,800	134,500	+12,800
Child care food program	269,800	- -	269,800	350,700	-2,900	347,800	+78,000
Commodity procurement	273,500	- -	273,500	348,700	- -	348,700	+75,200
Nutrition studies and surveys	3,450	- -	3,450	3,300	- -	3,300	-150
Nutrition education and training	15,000	- -	15,000	15,000	-15,000	- -	-15,000
Total, Child Nutrition Programs	3,353,776	- -	3,353,776	3,812,938	-47,900	3,765,038	+411,262
Transfer from Section 32	-1,879,653	- -	-1,879,653	-1,763,948	- -	-1,763,948	+115,705
Total, Direct Appropriation, Child Nutrition Programs	1,474,123	- -	1,474,123	2,048,990	-47,900	2,001,090	+526,967
Special Milk Program:							
Cash payments to States	118,800	- -	118,800	124,800	- -	124,800	+6,000
Special Supplemental Food Programs (WIC):							
Special supplemental food program (WIC)	900,000	- -	900,000	1,037,600	-317,600	720,000	-180,000
Commodity supplemental food program	27,040	- -	27,040	30,500	-8,900	21,600	-5,440
Total, Special Supplemental Food Programs (WIC)	927,040	- -	927,040	1,068,100	-326,500	741,600	-185,440

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Food Stamp Program:							
Bonus costs	$9,198,959	+$26,191	$9,225,150	$12,241,300	-$3,079,000	$9,162,300	-$62,850
Matching for State administration	408,850	- -	408,850	502,300	-200	502,100	+93,250
Other program costs:							
Printing of coupons	35,500	- -	35,500	38,800	-5,400	33,400	-2,100
Shipment of coupons	3,600	- -	3,600	4,100	-600	3,500	-100
Processing redeemed coupons	9,100	- -	9,100	10,900	-1,500	9,400	+300
Work registration/job search	55,000	-25,000	30,000	70,000	-40,000	30,000	- -
Certification of SSI/Social Security recipients for food stamps	5,000	- -	5,000	5,000	- -	5,000	- -
Research, evaluation and demonstration projects	12,550	-474	12,076	9,950	-474	9,476	-2,600
Total, Other Program Costs	120,750	-25,474	95,276	138,750	-47,974	90,776	-4,500
Total, Food Stamp Program	9,728,559	+717	9,729,276	12,882,350	-3,127,174	9,755,176	+25,900
Food Donations Program:							
Needy Family Program:							
Commodities in lieu of food stamps	43,680	- -	43,680	48,020	- -	48,020	+4,340
Payments to distributing agencies for administration	260	- -	260	200	- -	200	-60
Total, Needy Family Program	43,940	- -	43,940	48,220	- -	48,220	+4,280
Elderly Feeding Program	84,720	- -	84,720	95,480	-95,480	- -	-84,720
Total, Food Donations Program	128,660	- -	128,660	143,700	-95,480	48,220	-80,440
Food Program Administration:							
Federal administrative expenses	88,714	-4,122	84,592	97,156	-4,587	92,569	+7,977
Total, Food and Nutrition Service	12,465,896	-3,405	12,462,491	16,365,096	-3,601,641	12,763,455	+300,964
Foreign Agricultural Service:							
Foreign agricultural affairs	18,900	-155	18,745	21,713	-294	21,419	+2,674
Commodity analysis and services	15,551	-620	14,931	16,658	-305	16,353	+1,422
Market development activities	27,241	-101	27,140	32,057	-135	31,922	+4,782
General Sales Manager	(4,991)	(-152)	(4,839)	(5,436)	(- -)	(5,436)	(+597)
Total, Foreign Agricultural Service	61,692	-876	60,816	70,428	-734	69,694	+8,878
Office of International Cooperation and Development:							
Salaries and Expenses:							
International agricultural development	105	-10	95	105	-2	103	+8
International scientific and technical cooperation	3,467	-62	3,405	7,299	-3,280	4,019	+614
Total, Salaries and Expenses	3,572	-72	3,500	7,404	-3,282	4,122	+622

Agency or Item	1981 Jan. Budget	1981 Change	1981 Revised Budget	1982 Jan. Budget	1982 Change	1982 Revised Budget	Increase or Decrease
Scientific Activities Overseas (Special Foreign Currency Program)	5,004	-4	5,000	5,754	- -	5,754	+754
Total, Office of International Cooperation and Development	8,576	-76	8,500	13,158	-3,282	9,876	+1,376
Public Law 480:							
Financing the sale of agricultural commodities for convertible foreign currencies and for dollars on credit terms (Titles I and III)	406,330	- -	406,330	477,100	-78,200	398,900	-7,430
Commodities supplied in connection with dispositions abroad (Title II)	822,600	- -	822,600	786,000	-21,800	764,200	-58,400
Total, Public Law 480	1,228,930	- -	1,228,930	1,263,100	-100,000	1,163,100	-65,830
CCC Export Credit Program:							
CCC Short-Term Credit	(585)	- -	(585)	(- -)	(- -)	(- -)	(-585)
CCC Intermediate Credit	(17,572)	- -	(17,572)	(- -)	(- -)	(- -)	(-17,572)
Export Credit Guarantees and Non-Commercial Risk	(2,000,000)	- -	(2,000,000)	(2,000,000)	(- -)	(2,000,000)	(- -)
Total, CCC Export Credit Program	(2,018,157)	- -	(2,018,157)	(2,000,000)	(- -)	(2,000,000)	(-18,157)
Total, Direct Appropriations for USDA, Agriculture, Rural Development and Related Agencies Appropriations Bill	21,556,619	-43,955	21,512,664	25,374,688	-3,808,096	21,566,592	+53,928
Forest Service:							
Forest management, protection and utilization	1,145,428	-8,940	1,136,488	1,204,254	-41,771	1,162,483	+25,995
Construction and land acquisition	392,077	-2,113	389,964	505,693	-32,000	473,693	+83,729
Acquisition of lands for national forests, special acts	754	- -	754	754	- -	754	- -
Acquisition of lands to complete land exchanges	446	- -	446	327	- -	327	-119
Rangeland improvements	6,800	- -	6,800	6,500	- -	6,500	-300
Total, Forest Service	1,545,505	-11,053	1,534,452	1,717,528	-73,771	1,643,757	+109,305
Total, Direct Appropriations, USDA	23,102,124	-55,008	23,047,116	27,092,216	-3,881,867	23,210,349	+163,233
Permanent Appropriations - FEDERAL FUNDS:							
Funds for Strengthening Markets, Income and Supply (Section 32)	2,257,115	- -	2,257,115	2,227,294	- -	2,227,294	-29,821
Agricultural Marketing Service:							
Marketing Services	5,550	- -	5,550	5,670	- -	5,670	+120

	1981			1982			Increase or Decrease
	Jan. Budget	Change	Revised Budget	Jan. Budget	Change	Revised Budget	
Perishable Agricultural Commodities Act Fund	$2,400	- -	$2,400	$2,538	- -	$2,538	+$138
National Wool Act	34,520	- -	34,520	40,781	- -	40,781	+6,261
Farmers Home Administration:							
Rural Housing Insurance Fund	- -	- -	- -	1,405,608	-$112,603	1,293,005	+1,293,005
Agricultural Credit Insurance Fund	- -	- -	- -	330,434	- -	330,434	+330,434
Rural Development Insurance Fund	155,207	- -	155,207	- -	- -	- -	-155,207
Rural Electrification Administration:							
Rural Electrification and Telephone Revolving Fund	(33,984)	- -	(33,984)	(- -)	- -	- -	(-33,984)
Rural Communication Development Fund	32,377	- -	32,377	1,550	-558	992	-31,385
Rural Telephone Bank	(129,704)	- -	(129,704)	(149,044)	(- -)	(149,044)	(+19,340)
Total, excluding Forest Service	2,487,169	- -	2,487,169	4,013,875	-113,161	3,900,714	+1,413,545
Forest Service	361,641	- -	361,641	488,673	- -	488,673	+127,032
Total, Permanent Appropriations - FEDERAL FUNDS	2,848,810	- -	2,848,810	4,502,548	-113,161	4,389,387	+1,540,577
Permanent Appropriations - TRUST FUNDS							
Science and Education Administration	1,017	- -	1,017	1,017	- -	1,017	- -
Animal and Plant Health Inspection Service	2,660	- -	2,660	2,798	- -	2,798	+138
Food Safety and Quality Service	61,190	-3,833	57,357	62,147	-4,222	57,925	+568
Economics and Statistics Service	45	- -	45	45	- -	45	- -
Agricultural Cooperative Service	45	- -	45	45	- -	45	- -
Agricultural Marketing Service	263	- -	263	263	- -	263	- -
Soil Conversation Service	1,078	- -	1,078	900	- -	900	-178
Office of International Cooperation and Development	3,364	- -	3,364	5,259	- -	5,259	+1,895
Total, excluding Forest Service	69,662	-3,833	65,829	72,474	-4,222	68,252	+2,423
Forest Service	96,400	- -	96,400	103,603	- -	103,603	+7,203
Total, Permanent Appropriations - TRUST FUNDS	166,062	-3,833	162,229	176,077	-4,222	171,855	+9,626
Supplementals:							
Public Law 480	76,115	-76,115	- -	- -	- -	- -	- -
Federal Crop Insurance Corporation:							
Administrative and Operating Expenses	49,181	- -	49,181	- -	- -	- -	-49,181
Federal Crop Insurance Corporation Fund	150,000	- -	150,000	- -	- -	- -	-150,000
Food and Nutrition Service:							
Food Stamp Programs	1,355,791	-151,191	1,204,600	- -	- -	- -	-1,204,600
Total, excluding Forest Service	1,631,087	-227,306	1,403,781	- -	- -	- -	-1,403,781

	1981			1982			Increase or Decrease
	Jan. Budget	Change	Revised Budget	Jan. Budget	Change	Revised Budget	
Forest Service:							
Forest Management, Protection and Utilization	$100,000	- -	$100,000	- -	- -	- -	-$100,000
Construction and Land Acquisition	62,542	- -	62,542	- -	- -	- -	-62,542
Total, Supplementals	1,793,629	-227,306	1,566,323	- -	- -	- -	-1,566,323
PROPOSED LEGISLATION:							
Science and Education Administration:							
Cooperative Research	10,000	- -	10,000	10,000	- -	10,000	- -
Farmer Home Administration:							
Rural Water and Waste Disposal Grants	- -	- -	- -	100,000	- -	100,000	+100,000
Rural Development Insurance Fund	- -	- -	- -	535,152	- -	535,152	+535,152
Water and Sewer Facility loans	- -	- -	- -	(575,000)	(-275,000)	(300,000)	(+300,000)
Total, Farmer Home Administration	- -	- -	- -	635,152	(-275,000)	635,152	+635,152
Rural Electrification Administration:							
Rural Telephone Bank	(- -)	(- -)	(- -)	(22,500)	(-22,500)	(- -)	(- -)
Agricultural Marketing Service:							
Marketing Services	- -	- -	- -	-24,627	+827	-23,800	-23,800
Food Safety and Quality Service:							
Funds for Strengthening Markets, Income and Supply (Section 32)	- -	- -	- -	- -	-86,800	-86,800	-86,800
Federal Grain Inspection Service:							
Salaries and Expenses	- -	- -	- -	- -	-24,101	-24,101	-24,101
Food and Nutrition Service:							
Food Stamp Program	- -	- -	- -	-486,800	+486,800	- -	- -
Child Nutrition Programs	- -	-34,925	-34,925	-67,400	-1,335,900	-1,403,300	-1,368,375
Nutrition Assistance for Puerto Rico	- -	- -	- -	- -	+922,485	922,485	+922,485
Special Milk Program	- -	- -	- -	- -	-95,300	-95,300	-95,300
Special Supplemental Food Program (WIC)	- -	- -	- -		-17,200	-17,200	-17,200
Total, Food and Nutrition Service	- -	-34,925	-34,925	-554,200	-39,115	-593,315	-558,390
Total, Proposed Legislation	10,000	-34,925	-24,925	66,325	-149,189	-82,864	-57,939

	1981			1982			Increase or Decrease
	Jan. Budget	Change	Revised Budget	Jan. Budget	Change	Revised Budget	
PROPOSED RESCISSIONS:							
Agricultural Stabilization and Conservation Service:							
Dairy and Beekeeper Indemnity Program.	- -	-$1,500	-$1,500	- -	- -	- -	+$1,500
Farmers Home Administration:							
Rural Housing Insurance Fund Loans	- -	(-316,000)	(-316,000)	- -	- -	- -	(+316,000)
Authority to borrow	- -	--	--	- -	-4,853	-4,853	-4,853
Agricultural Credit Insurance Fund Loans	- -	(-89,000)	(-89,000)	- -	- -	- -	(+89,000)
Authority to borrow	- -	- -	- -	- -	+8,750	8,750	+8,750
Rural Development Insurance Fund Loans .	- -	(-160,000)	(-160,000)	- -	- -	- -	(+160,000)
Rural Community Fire Protection Grants .	- -	-1,500	-1,500	- -	- -	- -	+1,500
Rural Development Planning Grants	- -	-2,000	-2,000	- -	- -	- -	+2,000
Rural Housing Supervisory Assistance Grants	- -	-500	-500	- -	- -	- -	+500
Rural Electrification Administration:							
Rural Electrification Loans:							
Insured	- -	(-62,000)	(-62,000)	- -	- -	- -	(+62,000)
Guaranteed	- -	(+50,000)	(+50,000)	- -	- -	- -	(-50,000)
Rural Telephone Loans	- -	(-125,000)	(-125,000)	- -	- -	- -	(+125,000)
Community Antenna Television Loans	- -	(-16,000)	(-16,000)	- -	- -	- -	(+16,000)
Authority to borrow	- -	-16,341	-16,341	- -	- -	- -	+16,341
Total, Proposed Rescissions	- -	-21,841	-21,841	- -	+3,897	3,897	+25,738
Receipts	-1,266,628	+3,833	-1,262,795	-1,767,995	+4,222	-1,763,773	-500,978
TOTAL, United States Department of Agriculture	26,653,997	-339,080	26,314,917	30,069,171	-4,140,320	25,928,851	-386,066

OBPE/Budget Div. 3-9-81

AMENDED
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OFFICE OF THE SECRETARY

Appropriation Act, 1981	$4,810,000
Budget Estimate, 1982 , as amended	5,358,000
Increase in Appropriation	+548,000

Adjustments in 1981

Appropriation Act, 1981	$4,810,000	
1981 Supplemental Appropriation for Pay Costs	+416,000	
Transferred from OGPA	+22,000	
a/Transferred to OBP&E and FmHA	-328,000	
Adjusted Base for 1982		$4,920,000
Budget Estimate, 1982, as amended		5,358,000
Increase over Adjusted 1981		+438,000

a/ Pursuant to Secretary's Memorandum No. 2022, on August 1, 1980, the energy functions were transferred from this account to the Office of Budget, Planning and Evaluation and the Farmers Home Administration.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Change	Amended 1982 Estimated
Program and Policy Direction and Coordination:			
Office of the Secretary	$1,946,281	+$358,000	$2,304,281
Under/Assistant Secretaries.	2,335,699	+49,000	2,384,699
Regulatory Hearings and Decisions	638,020	+31,000	669,020
Total Available	$4,920,000	+$438,000	$5,358,000

AMENDED

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Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$4,920,000	$4,920,000	- -
Fiscal Year 1982	$5,408,000	$5,358,000	-$50,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $50,000 are proposed for reduced employment ($41,000), equipment purchases ($7,000), and consultant services ($2,000).

A reduction is proposed in 1982 from amounts reflected in the January Budget based on the assumption that operating efficiency will be improved. The increase in FY 1982, net of the reductions for improved operating efficiency, is still needed to provide continued funding for the current level of activity in the Office of the Secretary. Due to lapses in staffing during FY 1981 the office can operate at a slightly lower funding level throughout the current year. Staffing requirements for the Office of the Secretary will be assessed and the results of the assessment will be reflected in the FY 1983 Budget.

AMENDED
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DEPARTMENTAL ADMINISTRATION

Appropriation Act, 1981	$12,950,000
Budget Estimate, 1982 as amended	19,955,000
Increase in Appropriation	+7,005,000

Adjustments in 1981

Appropriation Act, 1981	$12,950,000	
Activities transferred from Office of the Secretary a/	+175,000	
Activities transferred to Economics and Statistics Service b/	-200,000	
1981 Supplemental Appropriation for Pay Costs	+704,000	
Adjusted Base for 1982		13,629,000
Budget Estimate, 1982 as amended		19,955,000
Increase over Adjusted 1981		+6,326,000

a/ Pursuant to Secretary's Memorandum No. 2022, on August 1, 1980, the functions for the Department's energy policies and allocation of scarce fuel resources were transferred to this account from the Office of the Secretary.

b/ Pursuant to P.L. 96-528, the functions for the monitoring of agricultural cooperative for possible undue price enhancement were transferred from this account to Economics and Statistics Service.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Change	Amended 1982 Estimated
Budget, Planning and Evaluation	$3,793,800	+$553,200	$4,347,000
Operations and Finance	3,628,200	+5,053,800	8,682,000
Personnel	2,508,000	+204,000	2,712,000
Equal Opportunity	2,532,000	+355,000	2,887,000
Safety and Health Management	878,000	+49,000	927,000
Small and Disadvantaged Business Utilization	289,000	+111,000	400,000
TOTAL AVAILABLE	$13,629,000	+$6,326,000	$19,955,000

AMENDED

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JUSTIFICATION OF BUDGET AMENDMENT

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981			
OBPE	$3,894,800	$3,793,800	-$101,000
Other Staff Offices	10,342,200	9,835,200	-507,000
Total, DA	$14,237,000	$13,629,000	-608,000
Fiscal Year 1982			
OBPE	$4,527,000	$4,347,000	-$180,000
Other Staff Offices	15,915,000	15,608,000	-307,000
Total, DA	$20,442,000	$19,955,000	-$487,000

In an effort to reduce Federal Personnel and operating costs, general reductions totaling $487,000 are proposed for reduced employment ($455,000), travel ($20,000), and equipment purchases ($12,000).

Reductions are proposed for both FY 1981 and FY 1982 in anticipation of improved operating efficiency in carrying out administrative office staff support activities. The increase requested for FY 1982 will cover inflationary cost of operations and provide for continued development of improved administrative management systems which can be implemented department-wide to achieve additional improvement in operating efficiency in the future. The majority of this request ($4,385,000) is not a program increase. It represents a change in financing of activities previously charged to the agencies through the Working Capital Fund. The reduced charges to the program agencies will result in an equivalent amount of funds being available for application to UDSA programs.

Amended

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WORKING CAPITAL FUND

Operating Estimate, 1981	$67,041,000
Budget Estimate, 1982, as amended	73,630,000
Increase Over 1981	+$6,589,000

Adjustments in 1981:		
Obligation Estimate, 1981	$67,041,000	
1981 Increase for Pay Costs	- -	
Adjusted Base for 1981		67,041,000
Budget Estimate, 1982, as amended		73,630,000
Increase Over Adjusted 1981		+$6,589,000

SUMMARY OF INCREASES AND DECREASES
(Based on adjusted level of operation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Supply & Other Central Services	$5,050,000	+$918,000	$5,968,000
Reproduction Services	5,010,000	+573,000	5,583,000
Motion Picture, Photographic & Other Visual Information Services	3,273,000	- -	3,273,000
National Finance Center	30,610,000	+1,982,000	32,592,000
ADP Systems	23,098,000	+3,116,000	26,214,000
Total	$67,041,000	+$6,589,000	$73,630,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$69,455,000	$67,041,000	-$2,414,000
Fiscal Year 1982	$74,658,000	$73,630,000	-$1,028,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $1,028,000 are proposed for reduced employment ($920,000) and travel ($108,000).

After considering the reductions for both FY 1981 and FY 1982 from the January Budget an increase continues to be necessary in order to provide the level of services requested by the program agencies of the Department.

AMENDED
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OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Appropriation Act, 1981	$8,861,000
Budget Estimate, 1982, as amended	11,008,000
Increase in Appropriation	+2,147,000

Adjustments in 1981

Appropriation Act, 1981	$8,861,000	
Activities transferred from ASCS	+4,000	a/
Activities transferred to the Office of the Secretary	-22,000	b/
1981 Supplememtal for pay costs	+42,000	
Adjusted base for 1982		8,885,000
Budget estimate, 1982, as amended		11,008,000
Increase over adjusted 1981		+2,123,000

a/ Pursuant to the memorandum of agreement approved April 4 and August 23, 1979 responsibilities relating to emergency prepardness were transferred from the Agricultural Stabilization and Conservation Service to the Office of Governmental and Public Affairs. A total of $57,180 was transferred in fiscal year 1980. Full annual cost for fiscal year 1981 is estimated at $61,183.

b/ Pursuant to the memorandum of agreement approved July 17, 1980 all functions, delegations and responsibilities relating to the publication of "Agricultural Decisions" were transferred from the Office of Governmental and Public Affairs to the Office of the Administrative Law Judges, Office of the Secretary. A total of $5,685 was transferred in fiscal year 1980; $22,408 will be transferred in fiscal year 1981 to provide full year funding.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Public Affairs	$7,896,000	+$2,002,000	$9,898,000
Congressional Affairs	546,000	+44,000	590,000
Intergovernmental Affairs	443,000	+77,000	520,000
TOTAL AVAILABLE	$8,885,000	+$2,123,000	$11,008,000

Justification of Budget Amendment

The amendmentis part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$9,146,000	$8,885,000	-$261,000
Fiscal Year 1982	11,012,000	11,008,000	-4,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $4,000 are proposed for reduced equipment purchases.

The request for this office remains essentially unchanged for FY 1982 from the January Budget in order to assure the most effective transition possible in the administration's close-working relationship with the Congress and with State and local government units, and to assure effective articulation of the Department's current policies and programs to the general public.

AMENDED
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OFFICE OF THE INSPECTOR GENERAL

	Office of the Inspector General	Transfer from Food & Nutrition Service	Total
Appropriation Act, 1981	$28,052,000	$10,000,000	$38,052,000
Budget Est. 1982 as amended	31,320,000	9,508,000	40,828,000
Increase in Appropriation	+ 3,268,000	- 492,000	+ 2,776,000
Adjustments in 1981:			
Appropriation Act, 1981	28,052,000	10,000,000	38,052,000
1981 Supplemental Appropriation for pay costs	--	--	--
Adjusted base for 1982	28,052,000	10,000,000	38,052,000
Budget Est. 1982 as amended	31,320,000	9,508,000	40,828,000
Increase over adjusted 1981	+ 3,268,000	-492,000	+ 2,776,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Audits and investigations ..	$38,052,000	+$2,776,000	$40,828,000

JUSTIFICATION OF BUDGET AMENDMENT

The amendment is part of the Administration's Program for Economic Recovery.

The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$40,216,000	$38,052,000	-$2,164,000
Fiscal Year 1982	$43,535,000	$40,828,000	-$2,707,000

In an effort to reduce Federal personnel and operating costs, general reductions totaling $2,707,000 are proposed for reduced employment ($880,000), travel ($1,747,000) and equipment purchases ($80,000). The allocation of the reductions between appropriated and transfer funds is the product of a formula. This does not necessarily mean a reduction in the work associated with Food and Nutrition programs.

Reductions are proposed for both FY 1981 and FY 1982 from the January Budget. For FY 1982 the increase will primarily provide funds to cover inflation in operating costs and to develop more efficient methods for conducting audits through the use of automated techniques. This, in turn, will achieve continued savings to the Department as the results of the audit and investigative activities reduce fraud, waste and abuse, return funds to the treasury and avoid future costs.

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AMENDED

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OFFICE OF THE GENERAL COUNSEL

Appropriation	$11,609,000
Budget Estimate, 1982 as amended	13,718,000
Increase in Appropriation	+2,109,000

Adjustments in 1981		
Appropriation Act, 1981	$11,609,000	
1981 Supplemental Appropriation for pay costs	+671,000	
Adjusted base for 1982		12,280,000
Budget Estimate, 1982 as amended		13,718,000
Increase over adjusted 1981		+1,438,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Legal Services	$12,280,000	+$1,438,000	$13,718,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$12,519,000	$12,280,000	-$239,000
Fiscal Year 1982	13,748,000	13,718,000	-30,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $30,000 are proposed for reduced travel ($28,000) and equipment purchases ($2,000).

Reductions are proposed for both FY 1981 and FY 1982 to reflect improved operating efficiencies of this office. The FY 1982 increase requested is primarily to cover rising operating costs and to provide an essential level of legal services necessary to support the legislative program and regulatory reform activities which are a vital part of this Administration's Program for Economic Recovery.

AMENDED

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FEDERAL GRAIN INSPECTION SERVICE

SALARIES AND EXPENSES

Appropriation Act, 1981		$24,457,000
Budget Estimate, 1982, as amended		29,980,000
Increase in Appropriation		+5,523,000
Adjustments in 1981		
Appropriation Act, 1981	$24,457,000	
1981 Supplemental Appropriation for Pay Cost	+605,000	
Adjusted base for 1982		25,062,000
Budget estimate, 1982, as amended		29,980,000
Increase over adjusted 1981		+4,918,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Change	Amended 1982 Estimated
Inspection Administration and Supervision	$ 13,053,000	+$2,393,000	$15,446,000 a/
Weighing Administration and Supervision	6,714,000	+1,941,000	8,655,000 a/
Standardization Activities	2,863,000	+426,000	3,289,000
Compliance Activities	2,432,000	+158,000	2,590,000
TOTAL AVAILABLE	25,062,000	+4,918,000	29,980,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$25,964,000	$25,062,000	-$902,000
Fiscal Year 1982	31,141,000	29,980,000	-1,161,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $1,161,000 are proposed for reduced employment ($966,000), travel ($178,000), equipment purchases ($15,000), and consultant services ($2,000).

a/ Legislation will be proposed to revise user fees for grain weighing and inspection to cover the cost of supervision of these activities. This will reduce the requirement for appropriated funds by $24,101,000.

AMENDED

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SCIENCE AND EDUCATION ADMINISTRATION

Appropriation Act, 1981	$ 929,438,000
Budget Estimate, 1982, as amended	1,019,306,000
Increase in Appropriation	+ 89,868,000

Adjustments in 1981:		
Appropriation Act, 1981	$ 929,438,000	
1981 Supplemental Appropriation for pay costs	+ 10,881,000	
Transfer in the Estimate	+279,000	
Adjusted base for 1982		940,598,000
Budget estimate, 1982, as amended		1,019,306,000
Increase over adjusted 1981		+ 78,708,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	1982 Estimated
SEA Unit:			
Agricultural Research	$415,010,000	+$41,559,000	$ 456,569,000
Cooperative Research	200,897,000	+ 33,291,000	234,188,000
Extension	303,769,000	+ 13,609,000	317,378,000
Technical Information Systems	8,822,000	+ 449,000	9,271,000
Subtotal	928,498,000	+88,908,000	1,017,406,000
Construction	12,100,000	-10,200,000	1,900,000
TOTAL AVAILABLE	940,598,000	+78,708,000	1,019,306,000

Science and Education Administration research and extension activities have been reviewed and evaluated on an agency-wide basis. The table below shows changes, on an activity basis, proposed for FY 1982 over FY 1981.

	Budget Authority (dollars in thousands)			Change
	1980	1981	1982	1981 to 1982
Crop Productivity	$150,194	$169,091	$188,993	+$19,902
Crop Protection	104,164	118,728	133,063	+ 14,335
Animal Productivity	70,335	73,789	80,896	+ 7,107
Animal Protection	74,653	79,703	85,360	+ 5,657
Food Quality and Safety	49,703	53,914	60,394	+ 6,480
Food Protection, Distribution & Exports	33,623	36,501	38,889	+ 2,388
Technology and Safety of Non-food Agricultural Products	27,510	30,434	28,473	- 1,961
Economics, and Farm Management	17,873	18,936	19,841	+ 905
Human Nutrition	81,952	89,033	96,575	+ 7,542
Family and Consumer Development	43,165	45,449	48,987	+ 3,538
Youth Development (4-H)	73,735	78,669	86,242	+ 7,573
Rural and Community Development	26,964	29,197	31,238	+ 2,041
Land and Water Resources	64,969	71,984	83,222	+ 11,238
Forestry and Range Resources	22,778	25,265	26,979	+ 1,714
Technical Information Systems	7,917	8,822	9,271	+ 449
Subtotal	849,535	929,515	1,018,423	+ 88,908
Construction (non-recurring)	3,900	12,100	1,900	- 10,200
Total a/	853,435	941,615	1,020,323	+ 78,708
1890 Facilities (Proposed Legislation)		10,000b/	10,000b/	

Specific justification of increases and decreases within these totals are described in the following sections of these explanatory notes.

a/ Includes $994,000 for FY 1980, $1,017,000 for FY 1981 and FY 1982 for Miscellaneous Contributed Funds.

b/ Includes $10 million which (subject to Congressional approval of proposed authorizing legislation) would provide the initial Federal funding for a 5-year 1890's and Tuskegee Institute research facilities improvement program totalling $50 million.

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery and represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$946,881,000	$940,598,000	-$6,283,000
Fiscal Year 1982	1,006,027,000	1,019,306,000	+13,279,000

AMENDED

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SCIENCE AND EDUCATION ADMINISTRATION

AGRICULTURAL RESEARCH

Appropriation Act, 1981	$416,367,000
Budget Estimate, 1982, as amended	456,569,000
Increase in appropriation	+ 40,202,000

Adjustment in 1981:		
Appropriation Act, 1981	$416,367,000	
1981 Supplemental Appropriations for Pay Costs	+10,464,000	
Transfer in the Estimate a/	+279,000	
Adjusted base for 1982		427,110,000
Budget Estimate, 1982, as amended		456,569,000
Increase over adjusted 1981		+ 29,459,000

a/ Reflects the transfer of pesticide evaluation activities at the Northwest Biological Investigations Station (laboratory facility) located at Corvallis, Oregon, from the Environmental Protection Agency.

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Expanded basic agricultural research	$191,843,000	$+5,500,000	$197,343,000
Integrated pest management and biocontrol of pests	7,999,000	+ 500,000	8,499,000
Support of action agency requirements	39,124,000	+6,490,000	45,614,000
Germplasm resources	10,309,000	+1,800,000	12,109,000
Pesticide Impact Assessment	675,000	+ 400,000	1,075,000
Research on minor use pesticides	868,000	+ 200,000	1,068,000
Tropical and Subtropical research	2,865,000	+1,160,000	4,025,000
Research on aerospace technology	5,005,000	+1,500,000	6,505,000
Land and water research in support of the Resource Conservation Act	3,190,000	+2,600,000	5,790,000
Research on acid precipitation	--	+ 150,000	150,000
Non-point source pollution research	8,301,000	+1,250,000	9,551,000
Energy retrofit of facilities	2,500,000	+1,000,000	3,500,000
Soil and water conservation research in Alaska	138,000	+ 300,000	438,000
Human nutrition research	31,595,000	+1,500,000	33,095,000
National Arboretum security	162,000	+ 400,000	562,000
Animal protection research	23,096,000	+1,150,000	24,246,000
Animal reproduction efficiency research	6,381,000	+1,500,000	7,881,000
Water use efficiency research	4,455,000	+1,000,000	5,455,000
Tobacco research	5,190,000	-1,048,000	4,142,000
Research on stored tobacco insects	182,000	- 182,000	--
Contagious equine metritis	100,000	- 100,000	--
Wool and mohair	1,599,000	-1,075,000	524,000
Research on Mt. St. Helens' eruptions	1,000,000	-1,000,000	--
Nonrecurring construction items	12,100,000	-12,100,000	--
All other	68,433,000	+16,564,000	84,997,000
Total Available	427,110,000	+29,459,000	456,569,000

AMENDED

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SCIENCE AND EDUCATION ADMINISTRATION

AGRICULTURAL RESEARCH

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$432,828,000	$427,110,000	-$5,718,000
Fiscal Year 1982	457,160,000	456,569,000	-591,000

In order to assure continued increased productivity in the agricultural sector of our nation's economy, increases are proposed for agricultural research programs as follows:

+$1,779,000 for agricultural processing efficiency research. Implementation of this increase - a restoration to current program level - focuses on a significant redirection of research on industrial uses of farm products toward developing petroleum alternatives from renewable resources, and in particular, plant materials, and to develop alternative energy conserving methods for the conversion of animal fats to chemical raw materials. New knowledge developed in the redirected program will also contribute to increased environmental, food, and human safety in using and handling of pesticides and foodstuffs.

+$1,500,000 for animal reproduction efficiency research. The demand for high-quality foods of animal origin at a reasonable price places great pressures on the animal production system. Present systems will not meet these demands. Additional research emphasis will be placed on optimizing genetics, nutrition, physiology, hormone balance, stress reduction, diseases and improved management practices.

+$1,200,000 for additional germplasm collection activities. This increase would support and strengthen cricital elements of our current program on plant genetics resources. It would ensure an increased diversity of seed and clonal genetic material that would provide a more stable base for genetic improvement of plant productivity.

+$1,000,000 for research on improved water use efficiency for agricultural crops. Additional and improved knowledge of water supplies is essential if national needs for agricultural production and improved surface and groundwater quality for all uses are met. This increase will strengthen our ongoing research and establish new research initiatives to improve our understanding of water use for agricultural lands and to develop improved methods of water management for agricultural purposes.

In an effort to reduce Federal personnel and operating costs, general reductions totalling $6,070,000 are proposed for reduced employment ($1,902,000), travel ($3,264,000), equipment purchases ($795,000), and consultant services ($109,000).

AMENDED

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SCIENCE AND EDUCATION ADMINISTRATION

COOPERATIVE RESEARCH

Appropriation Act, 1981	$200,897,000
Budget Estimate, 1982, as amended	234,188,000
Increase in Appropriation	+33,291,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Payments under the Hatch Act	$128,615,000	+$17,994,000	$146,609,000
Cooperative forestry research	10,774,000	+1,507,000	12,281,000
Payments to 1890 colleges and Tuskegee Institute	19,270,000	+2,722,000	21,992,000
Special research grants	18,226,000	+7,531,000	25,757,000
Competitive research grants	16,000,000	+10,000,000	26,000,000
Animal health and disease research	6,500,000	-6,500,000	- -
Federal administration (direct appropriation)	1,512,000	+37,000	1,549,000
TOTAL AVAILABLE	200,897,000	+33,291,000	234,188,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$201,083,000	$200,897,000	-$186,000
Fiscal Year 1982	232,476,000	234,188,000	+1,712,000

In order to assure continued increased productivity in the agricultural sector of our nation's economy, a net increase is proposed for cooperative research programs as follows:

+$5,000,000 for animal health research special grants. Research will be initiated or intensified on highest priority animal health problem areas as identified by the Animal Health Science Research Advisory Board. Solutions will be sought to the cause, diagnosis, prevention, control, or eradication of these animal health hazards. Full exploitation will be made of major new research techniques now being made in veterinary and medical sciences applicable in solutions to animal health problems. This increase will permit in-depth studies by some of the Nation's most highly trained, experienced and productive veterinary scientists and will facilitate break-throughs badly needed for solution of specific animal health problems.

-$3,000,000 for human nutrition competitive grants. This reduction will keep the human nutrition competitive grants program at the FY 1981 level. Continuing at this funding level will allow for a sizeable research effort in this area.

In an effort to reduce Federal personnel and operating costs, general reductions totalling $288,000 are proposed for reduced employment ($87,000), travel ($170,000), equipment purchases ($26,000), and consultant services ($5,000).

AMENDED

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SCIENCE AND EDUCATION ADMINISTRATION

EXTENSION ACTIVITIES

Appropriation Act, 1981	$303,633,000
Budget Estimate, 1982, as amended	317,378,000
Increase in appropriation	+13,745,000

Adjustment in 1981:		
Appropriation Act, 1981	$303,633,000	
1981 Supplemental Appropriation for Pay Cost	+136,000	
Adjusted base for 1982		303,769,000
Budget estimate, 1982, as amended		317,378,000
Increase over adjusted 1981		+13,609,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Smith-Lever:			
For Sections 3b & c	$205,448,000	+$19,928,000	$225,376,000
Section 3d:			
Pest Management	7,435,000	+596,000	8,031,000
Farm Safety	1,020,000	-1,020,000	- -
Energy	300,000	+24,000	324,000
Urban Gardening	3,000,000	-3,000,000	- -
Nonpoint Source Pollution	- -	+1,404,000	1,404,000
Food and Nutrition Education	55,017,000	+5,337,000	60,354,000
Pesticide Impact Assessment	1,805,000	+145,000	1,950,000
1890 Colleges and Tuskegee Institute	11,250,000	+1,091,000	12,341,000
Bankhead-Jones	11,500,000	-11,500,000	- -
D. C. Extension	910,000	+73,000	983,000
Federal Admin. & Coordination	6,084,000	+531,000	6,615,000
TOTAL AVAILABLE	303,769,000	+13,609,000	317,378,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$304,040,000	$303,769,000	-$271,000
Fiscal Year 1982	305,110,000	317,378,000	+12,268,000

In order to assure continued increased productivity in the agricultural sector of our nation's economy, increases are proposed for agricultural education programs as follows:

+$11,117,000 for Smith-lever 3(b) and 3(c) formula programs.
+$930,000 for the Expanded Food and Nutrition Education Program (EFNEP).
+$570,000 for 1890 Colleges and Tuskegee Institute.

These funds are proposed to provide additional funds for increased operating costs in formula grant programs in FY 1982.

In an effort to reduce Federal personnel and operating costs, general reductions totalling $349,000 are proposed for reduced employment ($205,000), travel ($117,000) equipment purchases ($15,000), and consultant services ($12,000).

AMENDED

- 320 -

SCIENCE AND EDUCATION ADMINISTRATION

TECHNICAL INFORMATION SYSTEMS

Appropriation Act, 1981		$8,541,000
Budget Estimate, 1982, as amended		9,271,000
Increase in appropriation		+730,000
Adjustment in 1981:		
Appropriation Act, 1981	$8,541,000	
1981 Supplemental Appropriations for Pay Costs	+281,000	
Adjusted base for 1982		8,822,000
Budget Estimate, 1982, as amended		9,271,000
Increase over adjusted 1981		+449,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Increased Operating Cost	$8,822,000	+$449,000	$9,271,000
TOTAL AVAILABLE	8,822,000	+449,000	9,271,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$8,930,000	$8,822,000	-$108,000
Fiscal Year 1982	9,381,000	9,271,000	-110,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $110,000 are proposed for reduced employment ($46,000), travel ($27,000), equipment purchases ($28,000), and consultant services ($9,000).

AMENDED

SCIENCE AND EDUCATION ADMINISTRATION

BUILDINGS AND FACILITIES

Appropriation Act, 1981	- -
Budget Estimate, 1982, as amended	$1,900,000
Increase in Appropriation	+1,900,000

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Plant protection laboratory facility a/	- -	+$1,900,000	$1,900,000
TOTAL AVAILABLE	- -	+1,900,000	1,900,000

a/ For acquisition of land, construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities of or used by Agricultural Research, for the establishment of the European Parasite Research Laboratory at Valbonne, France.

An increase of $1,900,000 for European Biocontrol Facility (-0- available in FY 1981).

Need for Change: Most agricultural pests such as weeds, diseases, nematodes, and insects in the United States came from other parts of the world, leaving behind them biological control agents. Now those natural enemies of pests need to be found, identified, and evaluated abroad; introduced into the United States; and incorporated into Integrated Pest Management (IPM) systems.

The demands for research on exotic beneficial organisms to support U.S. biological control programs are increasing rapidly. A major impediment to obtaining biological control agents is the diffuse deployment of overseas SEA biocontrol personnel in antiquated facilities. The European Parasite Laboratory (EPL), Paris; the Biological Control of Weeds Laboratory (BCWL), Rome, are in rented residences basically unsuited for research purposes. Inadequate facilities have led to the rejection of several vital research projects and the reduction of output in others. Resources are needed to consolidate the European effort at one location and to strengthen research in Europe and in the U.S. This will lead to increased efficiency in utilizing manpower and facilities.

Through the cooperative efforts of SEA, the State Department, the U.S. Embassy to France, and the French National Institute of Agricultural Research, a plan was developed to establish a modern biological control research facility at Valbonne International Research Park in southern France to replace the inadequate Paris and Rome laboratories. The proposed site of the new facility is adjacent to the biological control laboratories of the French National Insitute of Agricultural Research (INRA) at Antibes. The Institute has a large staff and facilities, including quarantine-containment facilities.

Nature of Change: The increased funds will be used as follows:

-- In fiscal year 1982, 4,000 square meters (43,055 square feet) of land will be purchased and an additional 6,000 square meters (64,560 square feet) will be leased, $100,000;

-- Costs for designing and constructing the facility is estimated at $1.8 million.

This program proposal has not changed from the January budget. The amended presentation merely reflects this construction item in a separate appropriation account.

AMENDED
- 7 -

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Appropriation Act, 1981	$266,241,000
Budget Estimate, 1982, as amended	291,101,000
Increase in Appropriation	+24,860,000

Adjustments in 1981		
Appropriation Act, 1981	$266,241,000	
1981 Supplemental Appropriation for Pay Cost	+9,880,000	
Adjusted Base for 1982		$276,121,000
Budget Estimate, 1982, as amended		291,101,000
Increase Over Adjusted 1981		+14,980,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Agricultural quarantine inspection	$41,136,000	+$3,921,000	$45,057,000
Bio-control of plant pests	3,463,000	+1,929,000	5,392,000
Pest detection	2,284,000	+1,362,000	3,646,000
Animal welfare	4,510,000	+992,000	5,502,000
Brucellosis eradication	83,415,000	+3,584,000	86,999,000
Cattle ticks	4,886,000	+1,732,000	6,618,000
Emergency programs	3,168,000	+1,464,000	4,632,000
Import-export inspection	5,908,000	+480,000	6,388,000
Screwworm	43,055,000	+10,120,000	53,175,000
Contingency fund	2,500,000	+2,500,000	5,000,000
Boll weevil	1,722,000	-979,000	743,000
Citrus blackfly	1,808,000	-1,808,000	- -
Imported fire ant	6,000,000	-6,000,000	- -
Japanese beetle	165,000	-48,000	117,000
Mexican fruit fly	1,465,000	-57,000	1,408,000
Miscellaneous plant diseases and pests	603,000	-113,000	490,000
Multi-flora rose	200,000	-200,000	- -
Noxious weeds	1,670,000	-1,670,000	- -
West Indian sugarcane root borer	225,000	-225,000	- -
Poultry diseases	1,027,000	-286,000	741,000
Pseudorabies	557,000	-291,000	266,000
Swine disease surveillance	3,287,000	-274,000	3,013,000
Construction of facilities	6,986,000	-3,735,000	3,251,000
Animal damage control study	500,000	-500,000	- -
All other	55,581,000	+3,082,000	58,663,000
TOTAL AVAILABLE	276,121,000	+14,980,000	291,101,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. **The amendment represents a net change from the January Budget as follows:**

	January Budget	Revised Budget	Change
Fiscal Year 1981	$279,081,000	$276,121,000	-$2,960,000
Fiscal Year 1982	$292,323,000	$291,101,000	-$1,222,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $1,222,000 are proposed for reduced employment ($750,000), and equipment purchases ($472,000).

AMENDED
- 64 -

FOOD SAFETY AND QUALITY SERVICE

Appropriation Act, 1981	$293,318,000
Budget Estimate, 1982, as amended	328,250,000
Increase in Appropriation	+34,932,000

Adjustments in 1981:		
Appropriation Act, 1981	$293,318,000	
1981 Supplemental Appropriation for pay costs	14,988,000	
Adjusted Base for 1982		308,306,000
Budget Estimate, 1982, as amended		328,250,000
Increase over adjusted 1981		+19,944,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Slaughter Inspection	$159,505,000	+$6,363,000	$165,868,000
Processing Inspection	76,752,000	+2,275,000	79,027,000
Import-Export Inspection	4,668,000	+251,000	4,919,000
Compliance	6,966,000	+501,000	7,467,000
Laboratory Services	14,502,000	+6,718,000	21,220,000
Grants to States	31,636,000	+2,859,000	34,495,000
Commodity Purchase Services	2,448,000	+186,000	2,634,000
Egg Products Inspection	7,587,000	+635,000	8,222,000
Voluntary Commodity Inspection and Grading	4,242,000	+156,000	4,398,000
TOTAL AVAILABLE	308,306,000	+19,944,000	328,250,000

Justification of Budget Amendment

The amendment is part of the Administration's program for Economic Recovery. **The amendment represents a net change from the January Budget as follows:**

	January Budget	**Revised Budget**	**Change**
Fiscal Year 1981	$313,678,000	$308,306,000	-$5,372,000
Fiscal Year 1982	341,257,000	328,250,000	-13,007,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $13,007,000 are proposed for reduced employment ($11,677,000), travel ($1,245,000), equipment purchases ($49,000), and consultant services ($36,000).

AMENDED
- 8 -
ECONOMICS AND STATISTICS SERVICE

Appropriation Act, 1981		$90,203,000
Budget Estimate, 1982, as amended		100,187,000
Increase in Appropriation		+9,984,000
Adjustments in 1981:		
Appropriation Act, 1981	$90,203,000	
Transfer from Departmental Administration	+200,000	
1981 Supplemental Appropriation for Pay Costs	+2,951,000	
Adjusted base for 1982		$93,354,000
Budget estimate, 1982, as amended		100,187,000
Increase over adjusted 1981		+6,833,000

Summary of Increases and Decreases
(on basis on adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Development of a Natural Resource Data System	$2,200,000	+$1,000,000	$3,200,000
Improved Data and Monitoring of Farm Costs of Production	1,600,000	+1,000,000	2,600,000
Research on Markets and Regulations	3,200,000	+1,500,000	4,700,000
Farm Work Force Data, Research and Analysis	140,000	+1,100,000	1,240,000
Pesticide Impact Assessments	1,050,000	+220,000	1,270,000
Research on World Demand for U.S. Agricultural Commodities	1,400,000	+430,000	1,830,000
Program of Crop Data Improvement	1,770,000	+765,000	2,535,000
All Other	81,994,000	+818,000	82,812,000
TOTAL AVAILABLE	93,354,000	+6,833,000	100,187,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$95,174,000	$93,354,000	-$1,820,000
Fiscal Year 1982	105,893,000	100,187,000	-5,706,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $2,636,000 are proposed for reduced employment ($1,570,000) travel ($727,000) equipment ($324,000) and consultant services ($15,000).

As part of the overall Fiscal Restraints, programs of relatively lower priority are proposed for reductions as follows:

-- Reduced program increase (-$820,000) for Aerospace Remote Sensing- AgRISTARS.
-- Reduce increase (-$2,250,000) for general operating costs.

AMENDED

- 153 -

AGRICULTURAL COOPERATIVE SERVICE

SALARIES AND EXPENSES

Appropriation Act, 1981		$4,500,000
Budget Estimates, 1982, as amended		4,795,000
Increase in Appropriation		+295,000
Adjustments in 1981		
Appropriation Act, 1981	$4,500,000	
1981 Supplemental Appropriation for pay costs	- [illegible]	
Adjusted base for 1982		4,500,000
Budget estimate, 1982, as amended		4,795,000
Increase over adjusted 1981		+295,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Research and Technical Assistance to Agricultural Cooperatives	$4,500,000	+$295,000	$4,795,000
TOTAL AVAILABLE	4,500,000	+295,000	4,795,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$4,711,000	$4,500,000	-$211,000
Fiscal Year 1982	4,800,000	4,795,000	-5,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $5,000 are proposed for reduced equipment purchases.

AMENDED
- 54 -
WORLD FOOD AND AGRICULTURAL OUTLOOK AND SITUATION BOARD

Appropriation Act, 1981	$1,731,000
Budget Estimate, 1982, as amended	1,552,000
Decrease in Appropriation	-$179,000
Adjustments in 1981:	
Appropriation Act, 1981 $1,731,000	
1981 Supplemental Appropriation for pay costs - -	
Adjusted base for 1982	$1,731,000
Budget estimate, 1982, as amended	1,552,000
TOTAL AVAILABLE	-$179,000

Summary of Increases and Decreases
(on basis on adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Restore one-time Congressional reduction in personnel costs resulting from hiring limitation in FY 1981	- -	+200,000	$200,000
Colocation with ESS Crop Reporting Board to establish joint lockup	$500,000	-500,000	- -
All Other	1,231,000	+121,000	1,352,000
TOTAL AVAILABLE	1,731,000	-179,000	1,552,000

Justification of Budget Amendment

The amendment is part of the Administration's Program of Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$1,825,000	$1,731,000	-$94,000
Fiscal Year 1982	1,568,000	1,552,000	-16,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $16,000 are proposed for reduced travel ($14,000) and equipment purchases ($2,000).

AMENDED
- 70 -
AGRICULTURAL MARKETING SERVICE
(a) MARKETING SERVICES

Appropriation Act, 1981		$49,109,000
Budget Estimate, 1982, as amended		59,069,000
Increase in Appropriation		+9,960,000
Adjustments in 1981		
Appropriation Act, 1981	$49,109,000	
Funds transferred from Section 32 for Marketing Agreements and Orders	+5,550,000	
1981 Supplemental Appropriation for pay costs	+1,773,000	
Adjusted base for 1982		56,432,000
Budget Estimate, 1982, as amended		59,069,000
Increase over adjusted 1981		+2,637,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Increase or Decrease	Amended 1982 Estimated
Market News	$14,565,000	+$627,000	$15,192,000
Administration of Packers and Stockyards Act	8,971,000	+397,000	9,368,000
Grading and Standardization	19,612,000	+1,208,000	20,820,000
Regulatory Activities	5,407,000	+212,000	5,619,000
Wholesale Market Development	1,418,000	+45,000	1,463,000
Market Supervision and Assistance.	909,000	+28,000	937,000
Marketing Agreements & Orders	5,550,000	+120,000	5,670,000
TOTAL AVAILABLE	56,432,000	+2,637,000	59,069,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery.

The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$57,421,000	$56,432,000	-$989,000
Fiscal Year 1982	60,507,000	59,069,000	-1,438,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $1,438,000 are proposed for reduced employment ($514,000), travel ($867,000), equipment purchases ($56,000), and consultant services ($1,000).

The revised budget continues to support legislation which would reduce Federal costs by charging user fees for grading and classing tobacco (-$7.7 million), cotton (-$12.7 million) naval stores ($-.1 million) and for warehouse examination ($-3.3 million).

AMENDED

- 121 -

OFFICE OF TRANSPORTATION

SALARIES AND EXPENSES

Appropriation Act, 1981		$2,000,000
Budget Estimate, 1982, as amended		2,923,000
Increase in Appropriation		+923,000
Adjustments in 1981		
Appropriation Act, 1981	$2,000,000	
1981 Supplemental Appropriation for Pay Cost	- -	
Adjusted Base for 1982		$2,000,000
Budget Estimate, 1982, as amended		2,923,000
Increase Over Adjusted 1981		+923,000

SUMMARY OF INCREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Agricultural transportation experts in U.S. Field Offices ..	$266,000	+$105,000	$371,000
Analyze and disseminate information on agricultural transportation problems	- -	+470,000	470,000
Implementation of the Agreement on the Transportation of Perishables Treaty	- -	+230,000	230,000
All Other	1,734,000	+118,000	1,852,000
TOTAL AVAILABLE	2,000,000	+923,000	2,923,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$2,134,000	$2,000,000	-$134,000
Fiscal Year 1982	3,015,000	2,923,000	-92,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $92,000 are proposed for reduced travel ($85,000), equipment purchases ($6,000), and consultants ($1,000).

AMENDED
- 276 -

Salaries and Expenses, Agricultural Stabilization and Conservation Service

	Direct Appropriation	Transfers from Commodity Credit Corporation	Total
Appropriation Act, 1981.....	$195,671,000	$159,789,000	$355,460,000
Budget Estimate, 1982 as amended.....	215,480,000	176,241,000	391,721,000
Increase in Appropriation.....	+19,809,000	+16,452,000	+36,261,000
Adjustments in 1981:			
Appropriation Act, 1981.....	195,671,000	159,789,000	355,460,000
Transfers to other agencies for pay costs.....	- -	-484,000 a/	-484,000 a/
1981 Supplemental Appropriations for pay costs	+13,163,000	+6,831,000	+19,994,000
Adjusted base for 1982.....	208,834,000	166,136,000	374,970,000
Budget estimate, 1982, as amended.....	215,480,000	176,241,000 b/	391,721,000 b/
Change from adjusted 1981.....	+6,646,000	+10,105,000	+16,751,000

a/ To be transferred from the Contingency Reserve under the CCC Administrative Expenses Limitation as follows:

Agricultural Marketing Service	$212,000
FAS-General Sales Manager	272,000
Total	484,000

b/ Includes Contingency Reserve of $4,112,000 available only upon release by the Office of Management and Budget.

AMENDED
- 277 -

SUMMARY OF INCREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Restoration of CCC Contingency Reserve	$ 3,786,000	+$326,000	$ 4,112,000
Contracting Services	- -	+1,400,000	1,400,000
All Other	371,184,000	+15,025,000	386,209,000
TOTAL AVAILABLE	$374,970,000	+$16,751,000	$391,721,000

Justification of Budget Amendment

The amendment is part of the Administration's program for Economic Recovery. **The amendment represents a net change from the January Budget as follows:**

	January Budget	Revised Budget	Change
Fiscal Year 1981	$376,849,000	$374,970,000	-$1,879,000
Fiscal Year 1982	396,523,000	391,721,000	-4,802,000

In an effort to reduce Federal personnel and operating costs, general reductions in the direct appropriation totalling $1,532,000 are proposed for travel ($1,483,000), equipment purchases ($46,000), and consultant services ($3,000). Also, the request for additional staffing is withdrawn. Funding is thereby reduced by $1,563,000 in direct appropriated funds.

The transfer from the Commodity Credit Corporation includes reductions of $1,437,000 associated with the withdrawal of additional staffing and $270,000 for travel.

AMENDED

- 289 -

Dairy and Beekeeper Indemnity Programs

Appropriation Act, 1981	$1,700,000
Budget Estimate, 1982	200,000
Decrease in Appropriation	-1,500,000

SUMMARY OF INCREAES AND DECREASES
(On basis of appropriation)

Item of Change	1981 Estimated	Program Changes	1982 Estimated
Indemnity payments to dairy farmers	$150,000	- -	$150,000
Indemnity payments to manufacturers of dairy products	50,000	- -	50,000
Indemnity payments to beekeepers	1,500,000	-$1,500,000	- -
TOTAL AVAILABLE	1,700,000	-1,500,000	200,000

This proposed rescission is part of the Administration's Program for Economic Recovery. The rescission represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$1,700,000	$1,700,000	- -
Proposed rescission	- -	-1,500,000	-$1,500,000
Total, Fiscal Year 1981	1,700,000	200,000	-1,500,000
Fiscal Year 1982	200,000	200,000	- -

This proposed rescission would eliminate the experimental Beekeeper Indemnity Program. This program authorizes indemnification to beekeepers who experience losses due to pesticides. A maximum limitation of 10 percent of the registered colonies indemnifies beekeepers only a token amount to assist in replacing the lost bees. This program is discretionary and its elimination can be made without adversely impacting human health and safety or other critical needs.

AMENDED
- 300 -

Agricultural Conservation Program

Appropriation Act, 1981	$190,000,000
Budget Estimate, 1982, as amended	150,000,000
Decrease in Appropriation	-40,000,000

SUMMARY OF DECREASES

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Cost-sharing assistance to farmers and Soil Conservation Service technical assistance	$188,100,000	-$39,600,000	$148,500,000
Technical assistance (allocation to Forest Service)	1,900,000	-400,000	1,500,000
TOTAL AVAILABLE	$190,000,000	-$40,000,000	$150,000,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$190,000,000	$190,000,000	- -
Fiscal Year 1982	190,000,000	150,000,000	-$40,000,000

The level of program is proposed for reduction as a part of the administration's overall economic policies to place greater reliance on the private sector for such investment decisions. Also the administration's proposals for investment credits and depreciation will provide additional incentives to invest in conservation practices. This Federally financed program will continue to provide cost-sharing assistance to agricultural producers to help implement enduring practices to solve a wide range of conservation and environmental problems. This program level will be targeted to intensely eroding areas where more soil can be conserved at less cost.

AMENDED
- 307 -

Water Bank Act Program

Appropriation Act, 1981	$10,000,000
Budget Estimate, 1982, as amended	- -
Decrease in Appropriation	-10,000,000

SUMMARY OF DECREASES

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Annual payments to landowners and operators	$10,000,000	-$10,000,000	- -
TOTAL AVAILABLE	$10,000,000	-$10,000,000	- -

Justification of Budget Amendment

This amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981....	$10,000,000	$10,000,000	- -
Fiscal Year 1982....	10,000,000	- -	-$10,000,000

This proposal would eliminate the program which provides only temporary protection for the preservation of waterfowl habitat at continually increasing costs. Technical assistance to private landowners interested in investing in wildlife habitat development will continue to be available through other Federal government programs.

AMENDED
- 321 -

Forestry Incentives Program

Appropriation Act, 1981	$12,500,000
Budget Estimate, 1982, as amended	10,000,000
Decrease in Appropriation	-2,500,000

SUMMARY OF DECREASES

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Cost-share assistance to land owners	$11,250,000	-$2,250,000	$9,000,000
Techincal assistance (allocation to Forest Service)	1,250,000	-250,000	1,000,000
TOTAL AVAILABLE	$12,500,000	-$2,500,000	$10,000,000

Justification of Budget Amendment

This amendment is part of the Administration's Program for Economic Recovery. **The amendment represents a net change from the January Budget as follows:**

	January Budget	Revised Budget	Change
Fiscal Year 1981	$12,500,000	$12,500,000	- -
Fiscal Year 1982	15,000,000	10,000,000	-$5,000,000

This proposed reduction is a part of the administration's overall economic policies to place greater reliance on the private sector to assume more of the costs of private forest land management.

AMENDED

- 344 -

Federal Crop Insurance Corporation

ADMINISTRATIVE AND OPERATING EXPENSES

Appropriation Act, 1981	$29,558,000
Budget Estimate, 1982, as amended	135,877,000
Increase in Appropriation	+106,319,000

SUMMARY OF INCREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Underwriting, Actuarial and Program Development	$6,336,000	+$3,899,000	$10,235,000
Marketing and Collections	10,807,000	+52,379,000	63,186,000
Contract Servicing and Claims	12,415,000	+50,041,000	62,456,000
TOTAL AVAILABLE	29,558,000	+106,319,000	135,877,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$31,128,000	$29,558,000	-$1,570,000
Fiscal Year 1982	136,462,000	135,877,000	-585,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $585,000 are proposed for reduced employment ($300,000), travel ($282,000), and consultants ($3,000).

This Administration supports the expansion of the crop insurance on a nationwide basis and the eventual substitution of crop insurance for other disaster assistance programs of the Department.

75-788 O—81——32

AMENDED

- 280 -

FARMERS HOME ADMINISTRATION
Program Levels
(Dollars in Millions)

	1980 Actually Available	Estimated Available 1981	AMENDED Budget Estimate 1982
Loans:			
Rural Housing Insurance Fund:			
Low Income Housing	$2,255.0	$2,300.0	2,300.0
Moderate-Income Housing:			
Insured	825.0	825.0	500.0
Guaranteed	- -	- -	- -
Above-Moderate Income Housing - Guaranteed	500.0	25.0	- -
Rural Rental Housing-Subsidized	820.0	870.0	870.0
Unsubsidized	48.0	48.0	- -
Very Low-Income Housing Repair	24.0	24.0	24.0
Farm Labor Housing	30.0	25.6	25.6
Rural Housing Site Development	1.0	7.0	5.0
Housing Rehabilitation Loans	- -	- -	- -
Total, RHIF	4,503.0	4,124.6	3,724.6
Agricultural Credit Insurance Fund:			
Farm Ownership	920.0	870.0	700.0
Guaranteed	50.0	50.0	125.0
Farm Operating	850.0	850.0	1,325.0
Guaranteed	25.0	25.0	50.0
Soil and Water Conservation	53.1	53.1	50.1
Irrigation and Drainage	7.4	7.4	7.4
Grazing Association	4.8	4.8	4.8
Resource Conservation and Development	4.0	4.0	- -
Watershed Works and Flood Prevention	26.0	26.0	26.0
Indian Tribe Land Acquisition	11.9	11.9	11.9
Recreation	2.4	2.4	- -
Total, ACIF (Less Emergency Programs)	1,954.6	1,904.6	2,300.2
Rural Development Insurance Fund:			
Water and Waste Disposal	700.0	750.0	300.0*
Community Facilities	240.0	260.0	130.0
Business and Industrial			
Insured	10.0	- -	- -
Guaranteed	1,066.0	741.0	- -
Energy Conservation	- -	- -	- -
Total, RDIF	2,016.0	1,751.0	430.0
Energy Security Act (transferred from Treasury)	(515.0)	- -	- -

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FARMERS HOME ADMINISTRATION (Cont'd)
Program Levels
(Dollars in Millions)

	1980 Actually Available	Estimated Available 1981	AMENDED Budget Estimate 1982
Emergency Programs a/:			
Emergency Disaster Loans.....	2,500.0	4,200.0	1,600.0
Economic Emergency Loans (noted below)			
Self-Help Housing Land Development Fund.....	1.0	2.0	2.0
Total, Loans.....	10,974.6	11,982.2	8,056.8
Grants:			
Rural Development:			
Water and Waste Disposal.....	290.0	203.0	100.0*
Rural Development.....	10.0	5.0	- -
Rural Development Planning.....	6.0	5.0	- -
Fire Protection and Rescue.....	- -	- -	- -
Other Transfer Grants.....	35.0	35.0	- -
Energy Impact Assistance (DOE/EDA) b/.....	42.2	82.7	- -
Rural Community Fire Protection	3.5	3.5	- -
Total, RD Grants.....	386.7	334.2	100.0
Rural Housing:			
Farm Labor Housing.....	25.0	28.6	25.0
Mutual and Self-Help Housing...	9.5	14.2	5.0
Sec. 525 Tech. & Supv. Asst....	1.5	1.5	- -
Very Low Income Housing Repair.	24.0	25.0	25.0
Total, RH Grants.....	60.0	69.3	55.0
Total, Grants.....	446.7	403.5	155.0
Contracts:			
Rural Rental Assistance, RHIF..	393.0	403.0	398.0
Homeownership Assistance, RHIF.	- -	- -	- -
Total Contracts.....	393.0	403.0	398.0
Total, FmHA Loans, Grants and Contracts	11,814.3	12,788.7	8,609.8
Salaries and Expenses, Direct Appropriation.....	235.8	250.6	282.8
Total.....	12,050.1	13,039.3	8,892.6

a/ Economic Emergency estimated loan levels; FY 1980, $2.4 billion, and $1.85 billion for FY 1981. Authorizing legislation expires 9/30/81.

b/ Funds transferred from DOE/EDA.

* Proposed Legislation.

AMENDED

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JUSTIFICATION FOR BUDGET AMENDMENT

The amendment is part of the Administration's program for economic recovery. The amendment represents a net change from the January Budget as follows:

	(In Millions and Tenths)		
	January Budget	Revised Budget	Change
Fiscal Year 1981	$15,163.7	$15,163.7	- -
Proposed Rescission	- -	-1,154.0	-$1,154.0
Total, Fiscal Year 1981 .	15,163.7	14,009.7	-1,154.0
Fiscal Year 1982	11,560.8	8,609.8	-2,951.0

In an effort to reduce federal involvement in general credit activities and limit economic subsidies to the truly needy, the program level reductions are proposed as follows:

-- Rural Housing Insurance Fund from $4,370,600,000 to $3,724,600,000.

The Rural Housing Loan Program offers a variety of loans to purchase, develop, improve, repair and rehabilitate housing in rural areas. This proposal reduces the authority to incur obligations for direct loans under the homeownership loan program by $646,000,000. This reduction reflects repeal of legislation enacted in 1980 that would have reduced the interest rates on loans to moderate income facilities from about 13 percent to be subsidized to as low as 3 percent. Implementation of this change would have resulted in a substantial increase in the demand for loans. While the subsidized loans for moderate income housing is being eliminated this does not reduce the program for the truly needy. This proposal is a part of the Administration's effort to combat inflation and reduce subsidies and benefits for middle and upper income levels.

-- Agricultural Credit Insurance Fund from $3,107,200,000 to $2,300,200,000.

The Agricultural Credit Insurance Fund finances a number of Agricultural Credit Programs. The Farm Ownership Program will be reduced by $675,000,000, the Farm Operating Program by $125,000,000, and the Soil and Water Conservation Program will be reduced by $3,000,000. These activities can be financed thru private sources of credit. The $4,000,000 reduction in the Resource Conservation and Development Loans is consistent with the phase down of the Resource Conservation and Development Program. While the Farm Operating Program is a decrease from the January Budget it is an increase from the FY 1981 Budget. Legislation is proposed to increase the interest rate to the cost of Treasury borrowing on Farm Ownership Loans to limited resource farmers. The proposal is part of the Administration's effort to combat inflation. It has been determined that this reduction can be made without adversely affecting human health and safety or other critical needs.

AMENDED

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-- Rural Development Insurance Fund from $1,335,000,000 to $430,000,000.

The Rural Development Insurance Fund finances three loan programs: Water and Waste Disposal Loans; Community Facility Loans; and Business and Industrial Loans. This proposal reduces the authority to incur obligations for direct loans under the Water and Waste Disposal Loan Program by $275,000,000, and for Community Facility Loans by $130,000,000. The Business and Industrial Guaranteed loan program is eliminated. The new investment incentives as proposed by the administration should make available alternate private sources of credit for this program. This is part of the Administration's effort to combat inflation and reduce the Federal involvement in the credit market.

-- Emergency Programs from $2,000,000,000 to $1,600,000,000.

Legislation is proposed that will remove the 5 percent interest rate ceiling on emergency loans up to the amount of actual loss to those who cannot obtain credit elsewhere and to provide instead for a rate based on the Federal cost of borrowing. Further, this legislation will provide for the elimination of emergency loans to those who can obtain credit elsewhere. Administrative regulations will require emergency actual loss borrowers to obtain Federal Crop Insurance Corporation insurance on future crop loss until the actual loss loan is repaid.

-- Grants from $245,000,000 to $155,000,000.

This proposal is part of the Administration's effort to combat inflation. It has been determined that this reduction can be made without adversely affecting human health and safety or other critical needs.

-- Contracts from $498,000,000 to $398,000,000.

The Home Ownership Assistance Payments Program is proposed for elimination. Alternative sources for funding and credit in the Farmers Home Administration such as the Rental Assistance Payments Program are available to those that would be serviced by this program. While it is recognized that this program would provide useful benefits to our society, it has been determined that this is not the time to implement a new program. The elimination of this program can be made without adversely affecting human health and safety or other critical needs and that the benefits provided must be forgone in order to combat the high rate of inflation existing today.

These program level changes, together with legislative proposals regarding interest rates, are intended to refocus the programs of FmHA on their original purpose (i.e., to provide a source of financing to farmers and rural residents who are unable to obtain credit elsewhere and to provide such credit at approximately the current cost of money to the Federal government).

AMENDED

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Rural Housing Insurance Fund
(a) Direct Loan Authorization

Appropriation Act, 1981	$24,000,000
Budget Estimate, 1982, as amended	24,000,000
Change in Loan Authorization	- -

Justification of Budget Amendment

This amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$24,000,000	$24,000,000	- -
Fiscal Year 1982	25,000,000	24,000,000	-$1,000,000

In an effort to reduce Federal involvement in general credit activities and limit economic subsidies to the truly needy, program reductions are proposed as follows:

-- Direct loan authorization from $25,000,000 to $24,000,000.

RURAL HOUSING INSURANCE FUND

(c) RURAL HOUSING PROGRAM - OBLIGATION
(Dollars in Millions)

	1980 Actual	1981 Estimate	Change 1982 Amount Over 1981	Amended 1982 Estimate
	Amount	Amount		Amount
Low-Income Housing Assistance:				
Subsidized Interest Rate Loans:				
Repair loans (sec. 504)	21.9	24.0	--	24.0
General purpose loan (sec. 502):				
Purchase of new dwellings	1,392.4	1,404.0	- 19.0	1,385.0
Purchase of existing dwellings	783.1	840.0	+ 11.0	851.0
Repair only	44.6	56.0	+ 8.0	64.0
Domestic farm labor housing loans (sec. 514)	24.6	25.6	--	25.6
Rental or cooperative loans (sec. 515)	825.3	870.0	--	870.0
Non-Subsidized Interest Rate Loans:				
Site loans (sec. 524) a/	.6	5.0	- 1.2	3.8
General purpose loans (sec. 502)	30.9	--	--	--
Subtotal, Low-Income Housing Loan Assistance	3,123.4	3,224.6	- 1.2	3,223.4
Moderate-Income Housing Loan Assistance:				
Subsidized Interest Rate Loans:				
General Purpose loans (sec. 502):				
Purchase of new dwellings	--	390.0	-390.0	--
Purchase of existing dwellings	--	224.5	-224.5	--
Repair only	--	5.5	- 5.5	--
Non-Subsidized Interest rate loans:				
General purpose loans (sec. 502)	573.5	204.0	+296.0	500.0
Weatherization loans made through REA coops	1.3	1.0	- 1.0	--
Rental or cooperative loans (sec. 515)	56.0	48.0	- 48.0	--
Site loans (sec. 524) a/	.2	2.0	- .8	1.2
Subtotal, Moderate-Income Housing Loan Assistance.	631.0	875.0	-373.8	501.2

RURAL HOUSING INSURANCE FUND (continued)

(c) RURAL HOUSING PROGRAM - OBLIGATION
(Dollars in Millions)

	1980 Actual	1981 Estimate	Change 1982 Amount Over 1981	Amended 1982 Estimate
	Amount	Amount		Amount
Above Moderate-Income Housing Loan Assistance				
Non-Subsidized Interest Rate Loans:				
General purpose loans - guaranteed	18.9	25.0	- 25.0	--
TOTAL LOAN ASSISTANCE	3,773.3	4,124.6	-400.0	3,724.6
Home ownership assistance	--	--	--	--
Rural rental assistance	393.0	403.0	- 5.0	398.0
TOTAL HOUSING PROGRAMS	4,166.3	4,527.6	-405.0	4,122.6

a/ Site loans do not produce units of housing. They are usually made in conjunction with sec. 502 or sec. 515 loans and the units would be counted in these categories.

AMENDED

JUSTIFICATION OF BUDGET AMENDMENT

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
	(In Millions and Tenths)		
Fiscal Year 1981	$4,527.6	$4,527.6	- -
Proposed Rescission	- -	-316.0	-$316.0
Total, FY 1981	4,527.6	4,211.6	-316.0
Fiscal Year 1982	4,868.6	4,122.6	-746.0

In an effort to reduce Federal involvement in general credit activities and limit economic subsidies to the truly needy, program reductions are proposed as follows:

-- Direct loan authorization from $25,000,000 to $24,000,000.
-- Insured loan level from $4,345,600,000 to $3,700,600,000.
-- The Home Ownership Assistance Program is eliminated.

AMENDED

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(b) AGRICULTURAL CREDIT INSURANCE FUND LOAN LEVELS
(In Thousands of Dollars)

	1980 Actual	1981 Estimate	Change 1982 over 1981	AMENDED 1982 Estimate
Loans to Individuals:				
Farm ownership loans ..... $	954,052	$ 920,000	-95,000	825,000
Farm operating loans	874,829	875,000	+500,000	1,375,000
Recreation loans	2,276	2,400	-2,400	--
Emergency disaster loans ..	2,266,890	4,200,000	-2,600,000	1,600,000
Economic emergency loans ..	2,185,483	1,850,000	-1,850,000	--
Soil and water loans	54,636	53,100	-3,000	50,100
Subtotal, loans to individuals	6,338,166	7,900,500	-4,050,400	3,850,100
Loans to Associations or Groups:				
Irrigation and drainage loans	484	7,400	--	7,400
Grazing loans	4,245	4,800	--	4,800
Indian tribe land acquisition loans	6,380	11,900	--	11,900
Watershed protection loans	9,893	25,600	--	25,600
Flood prevention loans ..	--	400	--	400
Resource conservation and development loans	1,819	4,000	-4,000	--
Subtotal, loans to associations or groups ..	22,821	54,100	-4,000	50,100
TOTAL	6,360,987	7,954,600	-4,054,400	3,900,200

The fiscal year 1982 farm loan program proposals reflect a shift in funding emphasis from emergency loans to the recurring farm ownership and farm operating loans. This shift is consistent with implementation of the expanded crop insurance program in the Federal Crop Insurance Corporation (FCIC).

JUSTIFICATION OF BUDGET AMENDMENT

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
	(Dollars in Thousands)		
Fiscal Year 1981	$7,954,600	$7,964,600	--
Proposed Rescission	--	-88,800	-$88,800
Total, FY 1981	7,954,600	7,865,800	-88,800
Fiscal Year 1982	5,107,200	3,900,200	-1,207,000

This amendment is being proposed in an effort to reduce federal involvement in general credit activities and limit economic subsidies to the truly needy.

Program reductions are proposed as follows:

-- $775 million for insured farm ownership loans
-- $125 million for insured farm operating loans
-- $400 million for emergency disaster loans
-- $3 million for soil and water conservation loans
-- $4 million for resource conservation and development loan

Guaranteed farm ownership loans are increased by $100 million.

AMENDED

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Loan Levels
(In Thousands of Dollars)

	1980 Actual	1981 Estimated	Change 1982 Over 1981	AMENDED 1982 Estimated
Rural Development Assistance:				
Water and waste disposal loans:				
Water supply	$456,889	$487,500	$-487,500	--
Waste disposal	196,786	210,000	-210,000	--
Combination water supply and waste disposal	46,324	52,500	-52,500	--
Subtotal, water and waste disposal loans	700,000	750,000	-750,000	--
Community facility loans	240,000	260,000	-130,000	130,000
Business & Industrial loans	1,073,767	741,000	-741,000	--
Total	2,013,767	1,751,000	-1,621,000	130,000

JUSTIFICATION OF BUDGET AMENDMENT

The amendment is part of the Administration's Program for Economic Recovery.

The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
	(Dollars in Thousands)		
Fiscal Year 1981	$1,751,000	$1,751,000	- -
Proposed Rescission	- -	-160,000	-$160,000
Total, FY 1981	1,751,000	1,591,000	-160,000
Fiscal Year 1982	760,000	130,000	-630,000

In an effort to reduce Federal involvement in general credit activities and limit economic subsidies to the truly needy, program reductions are proposed as follows:

-- Elimination of $500,000,000 in Guarantees for Business and Industrial Loans.
-- Reduction in water and waste insured loans from $575,000,000 to $300,000,000 under proposed legislation.
-- Reduction in insured Community Facility Loans from $260,000,000 to $130,000,000.

AMENDED

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Rural Development Planning Grants

Appropriation Act, 1981	$5,000,000
Budget Estimate, 1982, as amended	- -
Decrease in Appropriation	-5,000,000

Justification of Budget Amendment

This amendment is part of the Administration's Program for Economic Recovery.

The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$5,000,000	$5,000,000	- -
Proposed Rescission	- -	-2,000,000	-$2,000,000
Total, FY 1981	5,000,000	3,000,000	-2,000,000
Fiscal Year 1982	6,000,000	- -	-6,000,000

As a part of overall fiscal restraints, programs of relatively lower priority are proposed for elimination.

AMENDED

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Rural Housing Supervisory Assistance Grants

Appropriation Act, 1981	$1,500,000
Budget Estimate, 1982, as amended	- -
Decrease in Appropriation	-1,500,000

Justification of Budget Amendment

This amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$1,500,000	$1,500,000	- -
Proposed Rescission	- -	-500,000	-$500,000
Total, FY 1981	1,500,000	1,000,000	-500,000
Fiscal Year 1982	2,000,000	- -	-2,000,000

As a part of overall fiscal restraints, programs of relatively lower priority are proposed for elimination.

AMENDED

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Self-Help Housing Land Development Fund

Appropriation Act, 1981	$1,000,000
Budget Estimate, 1982, as amended	1,000,000
Change in Appropriation	- -

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$2,000,000	$2,000,000	- -
Fiscal Year 1982	5,000,000	2,000,000	-3,000,000

As part of overall fiscal restraints programs of relatively lower priority are proposed for reduction.

AMENDED

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FARMERS HOME ADMINISTRATION

SALARIES AND EXPENSES

	Appropriation	Transfer from Rural Housing Insurance Fund	Transfer from Loan Funds for Temporary Field Employment	Amended Total
Appropriation Act, 1981	$244,984,000	$3,000,000	$500,000	$248,484,000
Budget estimate, 1982, as amended	282,836,000	3,000,000	500,000	286,336,000
Increase in appropriation	+37,852,000	--	--	+37,852,000
Adjustments in 1981:				
Appropriation Act, 1981	244,984,000	3,000,000	500,000	248,484,000
Transfer from Office of Energy a/	+153,000	--	--	+153,000
1981 Supplemental Appropriation for pay costs	+5,450,000	--	--	+5,450,000
Adjusted base for 1982	250,587,000	3,000,000	500,000	254,087,000
Budget estimate, as amended	282,836,000	3,000,000	500,000	286,336,000
Increase from adjusted 1981	+32,249,000	--	--	+32,249,000

a/ Pursuant to Secretary's Memorandum No. 2022 dated August 1, 1980, certain functions related to Energy Loans were transferred to FmHA. Actual transfer estimated at $153,236. On a comparable basis, the full annual cost of the activity including pay costs is $165,000 for 1981 and 1982.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Increase or Decrease	Amended 1982 Estimate
Increased operating costs	--	+$5,881,000	$5,881,000
Restoration of 1981 pay costs	--	+2,689,000	2,689,000
Annualization of the pay cost increase effective in 1981	--	+196,000	196,000
Increase for additional staff-years for loan servicing	--	+5,620,000	5,620,000
Increase for shift in financing of 725 staff years of effort	--	+17,863,000	17,863,000
All other expenses for administration of grant and direct and insured loan programs	254,087,000	--	254,087,000
Total available	254,087,000	+32,249,000	286,336,000

Justification of Budget Amendment

The Amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$258,264,000	$250,587,000	-$7,677,000
Fiscal Year 1982	287,034,000	282,836,000	-4,198,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $4,198,000 are proposed for reduced employment ($450,000), travel ($2,932,000), equipment purchases ($790,000), and consultant services ($26,000).

AMENDED

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DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
Rural Electrification and Telephone Revolving Fund

Loan Authorizations

	Loan Authorizations	Estimated Obligations for Loans, Loan Guarantee Commitments, and Interest Expense
Electrification Loans:		
Insured Loan Program:		
Appropriation Act, 1981	$ 850,000,000	$ 985,074,000
Budget Estimate, 1982, as amended	700,000,000	950,000,000
Change	-150,000,000	-35,074,000
Loan Guarantee Commitments:		
Appropriation Act, 1981	5,000,000,000	5,000,000,000
Budget Estimate, 1982, as amended	5,100,000,000	5,100,000,000
Change	+100,000,000	+100,000,000
Increase (Decrease) Over 1981	-50,000,000	+64,926,000
Telephone Loans:		
Insured Loan Program:		
Appropriation Act, 1981	250,156,000	262,082,000
Budget Estimate, 1982 as amended	- -	18,900,000
Change	-250,156,000	-243,182,000
Loan Guarantee Commitments:		
Appropriation Act, 1981	145,000,000	145,000,000
Budget Estimate, 1982, as amended	145,000,000	145,000,000
Change	--	--
Increase (Decrease) Over 1981	-250,156,000	-243,182,000

SUMMARY OF INCREASES AND DECREASES
(On basis of loan authorizations)

	1981	Change	Amended 1982 Estimates
Rural Electrification Program:			
Insured loans	$ 850,000,000	-$150,000,000	$ 700,000,000
Loan guarantee commitments	5,000,000,000	+100,000,000	5,100,000,000
Total	5,850,000,000	-50,000,000	5,800,000,000
Rural Telephone Program:			
Insured loans	250,156,000	-250,156,000	- -
Loan guarantee commitments	145,000,000	--	145,000,000
Total	395,156,000	-250,156,000	145,000,000
Total loan authorization	6,245,156,000	-300,156,000	5,945,000,000

Justification of Budget Amendment

The amendment is part of the Administration's program for Economic Recovery.

The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$6,245,000,000	$6,245,000,000	--
Proposed Rescissions	--	-187,000,000	-$187,000,000
Total, FY 1981	6,245,000,000	6,058,000,000	-187,000,000
Fiscal Year 1982	6,245,000,000	5,945,000,000	-300,000,000

AMENDED

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In an effort to reduce Federal involvement in general credit activities and limit economic subsidies to the truly needy, program reductions are proposed as follows:

-- Insured electric loan levels reduced from $850 million to $700 million, primarily loans for generation and transmission facilities. The utilization of private sources of credit is being encouraged by the Administration's proposed additional investment incentives that are provided for in the program for Economic Recovery. In order to facilitate this shift in financing it is proposed that the electric loan guarantees will be increased $100 million.

-- The insured telephone loan reduction of $250 million would terminate the insured telephone program. However, a $330 million telephone loan program would continue through the use of loan guarantees and loans by the Rural Telephone Bank.

-- Legislation is being proposed that would eliminate the 2 percent interest rate on some electric loans, substituting an equivalent amount of 5 percent interest loans ($150 million).

AMENDED

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DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
RURAL COMMUNICATION DEVELOPMENT FUND

	Loan Authorizations	Estimated Obligations for Loans, Loan Guarantee Commitments, and Interest Expense
Community Antenna Television Loans and Loan Guarantees:		
Insured Loan Program:		
Appropriation Act, 1981.....	$31,432,000	$33,277,000
Budget Estimate, 1982, as amended	--	2,950,000
Change.....	-31,432,000	-30,327,000
Loan Guarantee Commitments: a/		
Appropriation Act, 1981.....	2,568,000	2,568,000
Budget Estimate, 1982, as amended	--	--
Change.....	-2,568,000	-2,568,000
Increase(Decrease) Over 1981...	-34,000,000	-32,895,000

a/ The 1981 Appropriation language provides for $34 million in loans for CATV facilities; prior to enactment and under the terms of the Continuing Resolution, the agency approved two loan guarantees amounting to $2,568,000. These guarantee commitments have been deducted from the $34 million in direct loans authorized in the final Appropriation Act.

SUMMARY OF INCREASES AND DECREASES
(On basis of loan authorizations)

Community Antenna Television Loans and Guarantees:	1981	Change	1982 Estimate
Insured loans.....	$31,432,000	-$31,432,000	--
Loan guarantee commitments	2,568,000	- 2,568,000	--
Total loan authorizations	34,000,000	-34,000,000	--

Justification of Budget Amendment

The amendment is part of the Administration Program for Economic Recovery.

The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$34,000,000	$34,000,000	--
Proposed Rescissions	--	-16,000,000	-$16,000,000
Total, 1981	34,000,000	18,000,000	-16,000,000
Fiscal Year 1982	34,000,000	--	-34,000,000

In an effort to reduce Federal involvement in general credit activities and limit economic subsidies to the truly needy, program reductions are proposed that would withdraw the request for $34 million in Guaranteed Loan Levels.

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AMENDED
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RURAL ELECTRIFICATION ADMINISTRATION

Salaries and Expenses

Appropriation Act, 1981		$ 27,719,000
Budget Estimate, 1982, as amended		29,673,000
Increase in Appropriation		+1,954,000
Adjustment in 1981:		
Appropriation Act, 1981	$27,719,000	
1981 Supplemental Appropriation for pay cost	+590,000	
Adjusted base for 1982		28,309,000
Budget Estimate, 1982, as amended		29,673,000
Increase over Adjustment, 1981		+1,364,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	1982 Estimated
Increased operating cost	$2,778,000	+$450,000	$3,228,000
All Other	25,531,000	+914,000	26,445,000
TOTAL AVAILABLE	28,309,000	+1,364,000	29,673,000

Justification of Budget Amendment

The amendment is part of the Administration Program for Economic Recovery.

The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$29,203,000	$28,309,000	-$894,000
Fiscal Year 1982	30,152,000	29,673,000	-479,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $479 thousand are proposed for travel ($439 thousand), equipment purchases ($30 thousand), and consultant services ($10 thousand).

AMENDED
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SOIL CONSERVATION SERVICE

CONSERVATION OPERATIONS

Appropriation Act, 1981	$293,001,000
Budget Estimate, 1982, as amended	$317,639,000
Increase in Appropriation	+24,638,000

Adjustments in 1981:		
Appropriation Act, 1981	$293,001,000	
1981 Supplemental Appropriation for pay costs	17,908,000	
Adjusted base for 1982		$310,909,000
Budget estimate, 1982, as amended		317,639,000
Increase over adjusted 1981		+$6,730,000

Summary of Increases and Decreases
(on basis on adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Conservation Operations			
(a) Technical Assistance	$233,081,000	+$3,884,000	$236,925,000
(b) Inventory & Monitoring	17,063,000	+699,000	17,762,000
(c) Soil Survey	48,434,000	+1,454,000	49,888,000
(d) Snow & Water Forecasts	3,581,000	+82,000	3,663,000
(e) Plant Material Centers	3,145,000	+459,000	3,604,000
(f) Resource Appraisal and Program Development	5,605,000	+192,000	5,797,000
TOTAL AVAILABLE	310,909,000	+6,730,000	317,639,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$314,188	$310,909	-$3,279
Fiscal Year 1982	318,699	317,639	-1,060

In an effort to reduce Federal personnel and operating cost, General Reductions totalling $1,060,000 are proposed for reduced travel ($1,013,000) equipment purchases ($37,000) and consultant services ($10,000).

AMENDED
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SOIL CONSERVATION SERVICE

RIVER BASIN SURVEYS AND INVESTIGATIONS

Appropriation Act, 1981	$17,442,000
Budget Estimate, 1982, as amended	16,165,000
Decrease in Appropriation	- 1,277,000

Adjustment in 1981:		
Appropriation Act, 1981	$17,442,000	
1981 Supplemental Appropriation for Pay Cost	+881,000	
Adjusted base for 1982		$18,323,000
Budget estimate, 1982, as amended		16,165,000
Decrease over adjusted 1981		- 2,158,000

Summary of Increases and Decreases
(on basis on adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
USDA Cooperative Studies	$13,371,000	-$1,701,000	$11,670,000
Flood Plain Management Assistance	1,706,000	+28,000	1,734,000
Interagency Coordination and Program Development	3,246,000	-485,000	2,761,000
TOTAL AVAILABLE	18,323,000	-2,158,000	16,165,000

Justification of Amendment

The amendment is part of the Administrations Program for Economic Recovery. The amendment represents a net change from the January budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$18,527,000	$18,323,000	-$204,000
Fiscal Year 1982	16,165,000	16,165,000	- -

No change is proposed for FY 1982. Additional pay costs absorbtion of $204,000 is proposed for FY 1981.

AMENDED
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SOIL CONSERVATION SERVICE

WATERSHED AND FLOOD PREVENTION OPERATIONS

	Watersheds Authorized by P.L.-534	Emergency Watershed Operations	Small Watershed Authorized by P.L.-566	Total Watershed and Flood Prevention
Appropriation Act, 1981....	$23,500,000	$10,000,000	$159,024,000	$192,524,000
Budget Estimate, 1982 as amended.....	18,434,000	10,000,000	133,611,000	162,045,000
Decrease in Appropriation..	-5,066,000	- -	-25,413,000	-30,479,000

Adjustment in 1981:		
Appropriation Act, 1981.....	$192,524,000	
1981 Supplemental Appropriation for Pay Cost	- -	
Adjusted base for 1982.....		$192,524,000
Budget estimate, 1982, as amended.....		162,045,000
Decrease over adjusted 1981.....		-$30,479,000

Increases and Decreases
(on basis of adjusted appropriations)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Watershed Operations authorized by P.L.-534.....	$23,500,000	-$5,066,000	$18,434,000
Emergency Watershed Protection.....	10,000,000	-0-	10,000,000
Small watersheds authorized by P.L. 566.....	159,024,000	-25,413,000	133,611,000
TOTAL AVAILABLE.....	192,524,000	-30,479,000	162,045,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. **The amendment represents a net change from the January Budget as follows:**

	January Budget	Revised Budget	Change
Fiscal Year 1981	$193,885,000	$192,524,000	-$1,361,000
Fiscal Year 1982	172,380,000	162,045,000	-10,335,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $335,000 are proposed for reduced travel ($250,000) equipment ($30,000) and consultant services ($55,000).

As a part of the overall fiscal restraints, the budget amendment proposes a government-wide reduction of about 5% in ongoing watershed construction activity.

-- Ongoing Watershed and Flood Prevention Operations are reduced by $10 million. The impact on program accomplishments and results will be minimized by concentrating construction activities in areas having the most acute soil erosion and flood plain problems.

AMENDED
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SOIL CONSERVATION SERVICE

WATERSHED PLANNING

Appropriation Act, 1981	$10,000,000
Budget Estimate, 1982, as amended	6,690,000
Decrease in Appropriation	-3,310,000

Adjustments in 1981		
Appropriations Act	$10,000,000	
1981 Supplemental Appropriation for Pay Cost	813,000	
Adjusted base for 1982		$10,813,000
Budget estimate, 1982, as amended		6,690,000
Decrease over adjusted 1981		-$4,123,000

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Watershed Planning:			
Reduction in planning level..	$10,813,000	-$4,123,000	$6,690,000

Justification of Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$10,813,000	$10,813,000	- -
Fiscal Year 1982	8,690,000	6,690,000	-$2,000,000

As part of overall fiscal restraints, programs of a relatively lower priority are proposed for reduction as follows:

-- Eliminates $2,000,000 for 10 new planning authorizations in FY 1982. There are a number of projects currently in the planning stage or for which planning is complete and ready for use in preconstruction and construction activities. Therefore, the elimination of new planning authorizations should not have a significant impact on watershed program activities.

AMENDED
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SOIL CONSERVATION SERVICE

RESOURCE CONSERVATION AND DEVELOPMENT

Appropriation Act, 1981	$34,046,000
Budget Estimate, 1982, as amended	26,812,000
Increase in Appropriation	-7,234,000
Adjustments in 1981:	
Appropriation Act, 1981 $34,046,000	
1981 Supplemental	
Appropriation for pay costs - -	
Adjusted base for 1982	$34,046,000
Budget estimate, 1982, as amended	26,812,000
Increase over adjusted 1981	-7,234,000

Summary of Increases and Decreases
(on basis on adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Technical Assistance	$16,194,000	-$4,292,000	$11,902,000
Financial Assistance	17,642,000	-2,892,000	14,750,000
Loan Services	210,000	-50,000	160,000
TOTAL AVAILABLE	34,046,000	-7,234,000	26,812,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$35,479,000	$34,046,000	-$1,433,000
Fiscal Year 1982	28,132,000	26,812,000	-1,320,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $1,320,000 are proposed for reduced employment ($1,080,000), travel ($220,000), and equipment ($20,000).

AMENDED

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UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE
Food Assistance Table
(Dollars in Thousands)

Budget Authority	FY 1980 Estimate	FY 1981 Estimate	Amended FY 1982 Estimate
A. Child Nutrition Programs:			
1. Program grants to States:			
a. School lunch program ..	$724,700	$753,500	$814,200
b. Free and reduced price lunches	1,379,400	1,544,500	1,715,200
c. School breakfast program	249,800	319,100	356,800
d. Equipment assistance program	20,000	15,000	--
e. State administrative expenses	34,867	38,226	44,538
f. Summer food service program	88,800	121,700	134,500
g. Child care food program	213,800	269,800	347,800
Total, Program grants to States	2,711,367	3,061,826	3,413,038
2. Commodities to States:			
a. FNS child nutrition .	446,634	273,500	348,700
b. FSQS Section 32	371,686	365,400	365,400
c. CCC bonus commodities	125,540	271,305	94,195
Total, Commodities to States	943,860	910,205	808,295
3. Nutrition studies and education:			
a. Nutrition studies and surveys	1,700	3,450	3,300
b. Nutrition education, and training	20,000	15,000	--
Total, Nutrition studies and education	21,700	18,450	3,300
Total, Child nutrition programs	3,676,927	3,990,481	4,224,633
FSQS Section 32 commodities ...	371,686	365,400	365,400
FNS Child Nutrition account ...	3,179,701	3,353,776	3,765,038
CCC Donations	125,540	271,305	94,195

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Budget Authority	FY 1980 Estimate	FY 1981 Estimate	Amended FY 1982 Estimate
B. Special Milk Program:			
1. Cash payments to States	$156,800	$118,800	$124,800
C. Special Supplemental Food Programs:			
1. Special supplemental food program (WIC)	736,200	900,000	720,000
2. Commodity supplemental food program	21,750	27,040	21,600
Total, Special Supplemental Programs	757,950	927,040	741,600
D. Food Stamp Program:			
1. Bonus costs	8,698,756	9,225,150	9,162,300
2. State administrative costs ..	407,570	408,850	502,100
3. Other program costs	75,273	95,276	90,776
Total, Food Stamp Program ..	9,181,599	9,729,276	9,755,176
4. Transfer to OIG	9,401	10,000	9,508
Total, FNS	9,191,000	9,739,276	a/9,764,684
E. Food Donations Program:			
1. Commodities for families:			
a. Commodities in lieu of food stamps	34,076	43,680	48,020
b. Distributing agency administrative costs	321	260	200
Subtotal	34,397	43,940	48,220
2. Elderly feeding program	71,937	84,720	--
Total, Food Donations Program	106,334	128,660	48,220
F. Food Program Administration ...	81,470	84,592	92,569
Grand Total, Food Assistance	13,970,481	14,988,849	14,996,506
CCC bonus commodities.....	125,540	271,305	94,195
FSQS Section 32 commodities	371,686	365,400	365,400
OIG Transfer	9,401	10,000	9,508
FNS	13,463,854	14,342,144	14,527,403

a/ Excludes a proposed supplemental of $1,204,600,000 that will be needed in FY 1981.

AMENDED

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CHILD NUTRITION PROGRAMS

Appropriation Act, 1981	$3,353,776,000
Budget Estimate, 1982, as amended	3,765,038,000
Increase in Appropriation	+411,262,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
School lunch program	$753,500,000	+$60,700,000	$814,200,000
Special assistance	1,544,500,000	+170,700,000	1,715,200,000
School breakfast program	319,100,000	+37,700,000	356,800,000
Equipment assistance program ...	15,000,000	-15,000,000	- -
State administrative expenses ..	38,226,000	+6,312,000	44,538,000
Summer food service program	121,700,000	+12,800,000	134,500,000
Child care food program	269,800,000	+78,000,000	347,800,000
Commodity procurement	273,500,000	+75,200,000	348,700,000
Nutrition studies and surveys ..	3,450,000	-150,000	3,300,000
Nutrition education and training	15,000,000	-15,000,000	- -
TOTAL AVAILABLE	3,353,776,000	+411,262,000	3,765,038,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$3,353,776,000	$3,353,776,000	- -
Fiscal Year 1982			
Existing Legislation	3,812,938,000	3,765,038,000	-$47,900,000
Proposed Legislation	3,745,538,000	2,361,738,000	-1,383,800,000

This amendment reflects a change in reimbursement rates based on the latest economic assumptions, elimination of the food service equipment program, and elimination of nutrition education and training program (-$47.9 million).

AMENDED

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In an effort to reduce subsidies and benefits for middle and upper income levels and to make other program improvements, legislation is proposed that would provide for further reductions in the child nutrition programs totalling $1,486 million as follows:

-- eliminate Federal subsidy for children whose family income exceeds 185 percent of the poverty level (-$860.4 million).

-- reduce Federal subsidy for children whose family income exceeds 125 percent of the poverty level (-$204.3 million).

-- eliminate all subsidies to private schools with tuition over $1,500 per year (-$5.0 million).

-- eliminate the summer food service program (-$130.9 million).

-- eliminate snacks in the child care food program (-$73.9 million).

-- require additional income verification in an effort to reduce fraud and abuse of the program (-$100.0 million).

-- exclude payments to Puerto Rico which will be provided by a separate grant for nutrition assistance (-$111.6 million).

AMENDED

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SPECIAL SUPPLEMENTAL FOOD PROGRAMS (WIC)

Appropriation Act, 1981	$927,040,000
Budget Estimate, 1982, as amended	741,600,000
Decrease in Appropriation	-185,440,000

SUMMARY OF DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Special supplemental food program (WIC)	$900,000,000	-$180,000,000	$720,000,000
Commodity supplemental food program	27,040,000	-5,440,000	21,600,000
TOTAL AVAILABLE	927,040,000	-185,440,000	741,600,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981 ..	$927,040,000	$927,040,000	- -
Fiscal Year 1982			
Existing Legislation	1,068,100,000	741,600,000	-$326,500,000
Proposed Legislation	1,068,100,000	724,400,000	-343,700,000

While it is recognized that these programs provide useful benefits to our society, it has been determined that reductions can be made without adversely affecting human health and safety. The program will place priority on serving the nutritional needs of pregnant or breast feeding women and infants with serious nutritional deficiencies.

As participants leave the program due to improved nutritional status or increased income levels, they will not be replaced with new participants. In this manner the overall reduction of about 700 participants per month can be achieved through normal program turnover.

Legislation will be proposed to exclude payments to Puerto Rico which will be provided by a separate grant for nutrition assistance.

FOOD STAMP PROGRAM

Appropriation Act, 1981	a/	$9,739,276,000
Budget Estimate, 1982, as amended		9,764,684,000
Increase in appropriation		+ 25,408,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimated	Program Changes	Amended 1982 Estimated
Bonus costs	$9,225,150,000	-$62,850,000	$9,162,300,000
Matching for State administration	408,850,000	+93,250,000	502,100,000
Other program costs:			
Printing of coupons	35,500,000	-2,100,000	33,400,000
Shipment of coupons	3,600,000	-100,000	3,500,000
Processing redeemed coupons	9,100,000	+300,000	9,400,000
Work registration/job search	30,000,000	--	30,000,000
Certification of SSI/Social Security recipients for food stamps	5,000,000	--	5,000,000
Research, evaluation and demonstration projects	12,076,000	-2,600,000	9,476,000
Total, Other program costs	95,276,000	-4,500,000	90,776,000
Transfer to the Office of the Inspector General	10,000,000	-492,000	9,508,000
TOTAL AVAILABLE	a/ 9,739,276,000	+25,408,000	9,764,684,000

a/ Excludes proposed supplemental of $1,204,600,000 that will be needed in FY 1981.

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$11,094,350,000	$10,943,876,000	-$150,474,000
Fiscal Year 1982	12,406,298,000	9,764,684,000	-2,641,614,000

In an effort to revise entitlement programs to target assistance program to the most needy and reduce program overlap payments, reductions in the Food Stamp Program totalling $2.6 billion are proposed. The Food Stamp Program is scheduled for reauthorization in FY 1982. The revised budget presented in this amendment includes the Administration's proposals for the new Food Stamp bill as follows:

-- Establish a gross income limit at 130 percent of the poverty level. This level was selected because it is the level below which a family of four cannot purchase the Thrifty Food Plan with 30 percent of their income (-$273.0 million).

-- Reduce the food stamp benefits for children who receive a free school lunch. This reduction will be determined at the local food stamp office at the time benefits are calculated. The average offset per meal served is 65 cents (-$522.0 million).

-- Freeze the standard deduction at $85 and the excess shelter deduction at $115 (-$123.0 million).

-- Require prior month's income be used as part of the calculation for determing the level of food stamp benefits. This will increase costs by about $22.5 million the first year and about $26.3 million the second year for start up costs but will save about $300 million per year starting in FY 1984.

-- Prorate the first month's benefits for the portion of the month that a household becomes eligible for benefits (-$210.0 million). Presently, participants receive benefits for the whole month even though they were not eligible for the whole month.

AMENDED

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-- Repeal the separate dependent care deduction of up to $90 per month, keep the threshold for excess medical deductions for the elderly at $35 rather than $25, and eliminate the three month projection in the Thrifty Food Plan update (-$435.2 million).

-- Exclude payments to Puerto Rico which will be provided for by a separate grant for nutrition assistance (-$1,099.1 million).

AMENDED

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FOOD DONATIONS PROGRAM

Appropriation Act, 1981	$128,660,000
Budget Estimate, 1982, as amended	48,220,000
Decrease in Appropriation	-80,440,000

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Needy Family Program:			
Commodities in lieu of food stamps	$43,680,000	+$4,340,000	$48,020,000
Payments to distributing agencies for administration	260,000	-60,000	200,000
Subtotal, Needy Family Program	43,940,000	+4,280,000	48,220,000
Elderly Feeding Program	84,720,000	-84,720,000	- -
TOTAL AVAILABLE	128,660,000	-80,440,000	48,220,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	change
Fiscal Year 1981	$128,660,000	$128,660,000	- -
Fiscal Year 1982	143,700,000	48,220,000	-$95,480,000

The Elderly Feeding Program is being transferred to the Department of Health and Human Services in FY 1982.

AMENDED

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FOOD PROGRAM ADMINISTRATION

Appropriation Act, 1981		$84,000,000
Budget Estimate, 1982, as amended		92,569,000
Increase in Appropriation		+8,569,000
Adjustments in 1981:		
Appropriation Act, 1981	$84,000,000	
1981 Supplemental Appropriation for pay costs	+592,000	
Adjusted Base for 1982		84,592,000
Budget Estimate, 1982, as amended		92,569,000
Increase over adjusted 1981		+7,977,000

SUMMARY OF INCREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Federal administrative expenses ..	$84,592,000	+$7,977,000	$92,569,000
TOTAL AVAILABLE	84,592,000	+7,977,000	92,569,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$88,714,000	$84,592,000	-$4,122,000
Fiscal Year 1982	97,156,000	92,569,000	-4,587,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $4,587,000 are proposed for reduced employment ($2,855,000), travel ($1,694,000), and equipment purchases ($38,000).

Specific program administration reductions were not made in order to provide for a level of staffing which can assume operation of programs which States are most likely to turn back to Federal operating control and to assure continued pursuit of improved program administration and prevention and detection of fraud, waste, and abuse.

OTHER PROPOSED LEGISLATION

Special Milk Program

The amended budget proposes legislation that would save $95.3 million in the in Special Milk Program. Reductions are proposed as follows:

-- elimination of program in schools participating in another Federally subsidized meal program which also includes milk as a part of the meal served. (-$95.0 million).
-- exclude payments to Puerto Rico which will be provided by a separate grant for nutrition assistance (-$300 thousand).

Nutrition Assistance for Puerto Rico

The amended budget proposes a grant to Puerto Rico for all the nutrition programs. This is estimated to save about $300 million in FY 1982.

	(Dollars in Thousands) FY 1982
Reductions:	
Child Nutrition Programs	-$111,600
Special Milk Program	-300
Food Stamp	-1,099,100
Special Supplemental Food Programs (WIC)	-17,200
Total	-1,228,200
Amount requested for Nutrition Assistance for Puerto Rico	922,485
Total Savings	-305,715

The consolidation of funds into a Nutrition Block Grant for Puerto Rico is proposed to improve the administration of these activities and to make them more responsive to the Commonwealth's culture, economy and food preferences. The block grant would eliminate the detailed nutritional prescriptions, financial reporting and accounting of current Federal programs, and would permit the Puerto Rican government to target nutrition assistance in accordance with its priorities and to stimulate local agricultural production.

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AMENDED

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FOREIGN AGRICULTURAL SERVICE

Appropriation Act, 1981		$60,535,000
Budget Estimate, 1982, as amended		69,694,000
Increase in Appropriation		+9,159,000
Adjustments in 1981:		
Appropriation Act, 1981	$60,535,000	
1981 Supplemental Appropriation for Pay Cost	+281,000	
Adjusted Base for 1982		$60,816,000
Budget Estimate, 1982, as amended		69,694,000
Increase Over Adjusted 1981		+8,878,000

SUMMARY OF INCREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Foreign Agricultural Affairs	$18,745,000	+$2,674,000	$21,419,000
Commodity Analysis and Services	14,931,000	+1,422,000	16,353,000
Market Development Activities	27,140,000	+4,782,000	31,922,000
TOTAL AVAILABLE	60,816,000	+8,878,000	69,694,000

Justification of Budget Amendment

The amendment is part of the Administration's Plan for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$61,692,000	$60,816,000	-$876,000
Fiscal Year 1982	70,428,000	69,694,000	-734,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $734,000 are proposed for reduced travel ($652,000), equipment costs ($74,000) and consultants ($8,000).

Sufficient funds are retained to meet overseas inflation and to maintain the current level of program activity because this administration places high priority on export trade development activities.

AMENDED

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OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

Appropriation Act, 1981	$3,500,000
Budget Estimate, 1982, as amended	4,122,000
Increase in Appropriation	+622,000

SUMMARY OF INCREASES
(On basis of adjusted appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
International Agricultural Development	$95,000	+$8,000	$103,000
International Scientific and Technical Cooperation	3,405,000	+614,000	4,019,000
TOTAL AVAILABLE	3,500,000	+622,000	4,122,000

Justification of Budget Amendment

The amendment is part of the Administration's Plan for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$3,572,000	$3,500,000	-$72,000
Fiscal Year 1982	7,404,000	4,122,000	-3,282,000

In an effort to reduce Federal personnel and operating costs, general reductions totalling $382,000 are proposed for reduced travel ($374,000) and reduced equipment ($8,000).

The reduction of $2,900,000 is part of the Administration's effort to reduce the inflationary impact of federal spending on the general economy. While it is recognized that this program does provide useful benefits to our society, it has been determined that reductions can be made without adversely affecting human health and safety or other critical needs and that the benefits provided must be foregone in order to combat inflation. The amendment:

-- Eliminates the increase proposed for a new program of international cooperative research ($2,500,000) by cancelling the implementation of this new program during FY 1982.
-- Reduces the increase for cooperative agreements under the agency's scientific and technical exchange activity by cancelling new initiatives during FY 1982 ($400,000).

AMENDED

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OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

Scientific Activities Overseas

Appropriation Act, 1981	$5,000,000
Budget Estimate, 1982	5,754,000
Increase in Appropriation	+754,000

SUMMARY OF INCREASES
(on basis of appropriation)

Item	1980 Actual	1981 Estimate	Program Change	1982 Estimate
1 Market development reserach, Sec. 104(b)(1)	$339,000	$635,000	+$165,000	$800,000
2 Agricultural and forestry research Sec. 104(b)(3) ...	3,711,000	3,865,000	+589,000	4,454,000
3 Translation and dissemination of scientific publications Sec. 104(b)(3)	500,000	500,000	- -	500,000
Total Appropriation ..	4,550,000	5,000,000	+754,000	5,754,000

Justification of Budget Amendment

The amendment is part of the Administration's Plan for Economic Recovery.

The amendment eliminates the FY 1981 pay supplemental.

The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981	$5,004,000	$5,000,000	-$4,000
Fiscal Year 1982	5,754,000	5,754,000	- -

AMENDED

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PUBLIC LAW 480

	(Titles I and III) Financing the Sale of Agricultural Commodities for Convertible Foreign Currencies and for Dollars on Credit Terms	(Title II) Commodities Supplied in Connection with Dispositions Abroad	Total
Appropriation Act, 1981	$406,330,000	$822,600,000	$1,228,930,000
Budget Estimate, 1982, as amended	398,900,000	764,200,000	1,163,100,000
Decrease in Appropriation	-7,430,000	-58,400,000	-65,830,000

SUMMARY OF DECREASES
(On basis of appropriation)

Item of Change	1981 Estimate	Program Changes	Amended 1982 Estimate
Financing the sale of agricultural commodities for convertible foreign currencies and for dollars on credit terms (Title I and III)	$406,330,000	-$7,430,000	$398,900,000
Commodities supplied in connection with dispositions abroad (Title II)	822,600,000	-58,400,000	764,200,000
TOTAL, AVAILABLE	1,228,930,000	-65,830,000	1,163,100,000

Justification of Budget Amendment

The amendment is part of the Administration's Program for Economic Recovery. The amendment represents a net change from the January Budget as follows:

	January Budget	Revised Budget	Change
Fiscal Year 1981:			
Titles I and III:			
Program Level	$816,285,000	$816,285,000	- -
Budget Authority ...	482,455,000	406,330,000	-$76,115,000
Title II:			
Program Level	822,600,000	822,600,000	- -
Budget Authority ...	822,600,000	822,600,000	- -
Total, P.L. 480:			
Program Level	1,638,885,000	1,638,885,000	- -
Budget Authority ...	1,305,045,000	1,228,930,000	-76,115,000
Fiscal Year 1982:			
Titles I and III:			
Program Level	955,000,000	876,800,000	-78,200,000
Budget Authority ...	477,100,000	398,900,000	-78,200,000
Title II:			
Program Level	786,000,000	764,200,000	-21,800,000
Budget Authority ...	786,000,000	764,200,000	-21,800,000
Total, P.L. 480:			
Program Level	1,741,000,000	1,641,000,000	-100,000,000
Budget Authority ...	1,263,100,000	1,163,100,000	-100,000,000

AMENDED

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The amendment:

-- Eliminates the FY 1981 supplemental request ($76,115,000)
-- Reduces the Title I and III proposal ($78,200,000) (-.4 mmt.)
The dollar reduction for Title I and III will be absorbed through a reduction in the size of the unallocated dollar reserve for P.L. 480. The new reserve will exist within the range of the unallocated reserve established for the last two budget years. Country allocations would not change from current plans as a result of this change in budget authority.
-- Reduces the Title II proposal ($21,800,000) (-0- mmt.)
The total tonnage of food assistance to be provided can be maintained and the legal minimum of 1.7 mmt. met by changing the mix of commodities proposed for purchase under this program.

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