

A Special Report to the Appropriations Committees

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POTENTIAL FY 1995 SAVINGS IN USDA

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Thank you for inviting me here to discuss ways to cut spending and downsize government, specifically in the U.S. Department of Agriculture. You face the important and challenging task of finding adequate savings in the USDA budget. Although the total appropriation for the Department is almost \$67 billion, over 80 percent of those funds are dedicated to mandatory entitlement programs. This limits the committee's ability to cut spending by the USDA.

Members of this committee will have an opportunity to look at much broader reforms during consideration of the 1995 farm bill. Because the farm bill reauthorization could again lock in many spending commitments as long-term entitlements, obviously its consideration will be of enormous importance to this committee.

What is really required in all of government, and no less in USDA, is a revolutionary way of looking at what is the proper role of the government. Congress can redefine the role of the federal government in agriculture when they consider the 1995 farm bill. Now, more than ever, Congress needs to be serious about reform of agricultural policy, in order to make it possible for the agricultural industry to take advantage of the expanding global market. In that deliberation it is important to distinguish between government functions and those which should be the exclusive responsibility of the private sector. Before finalizing the next farm bill, Congress must determine which federal programs are outmoded, do not work, or duplicate the efforts of other programs.

Three basic principles should guide the Congress, both as you cut spending and as you consider, in the months ahead, the 1995 farm bill:

- 1 The federal government should not engage in any activity that is more appropriately carried out by state and local government.**

¹ Substantial portions of this were delivered in testimony before the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Subcommittee, Committee on Appropriations, January 31, 1995.

- ② **The federal government should cease activities that are properly the responsibility of the private sector.** Moreover, with respect to the farm bill, the government should cease activities that keep farmers from earning more income and taking advantage of world market opportunities.
- ③ **The federal government should terminate programs that do not work, that have become outmoded or obsolete, that duplicate other programs, or that do not involve legitimate government functions.**

Senator Richard Lugar (R-IN), Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, suggests correctly that Congress should pursue a bottom-up review of the functions of the Department of Agriculture. Many of the Department's programs date back to the Depression and no longer meet the needs of the modern American farmer in today's global marketplace. Although I applaud the efforts that were made last year to streamline and reorganize the Department, compared to what is left to be done, it is a rather small step.

Having said all that, let me reiterate that I am aware that boldly reforming the entire Department of Agriculture and its programs is not possible for this committee to accomplish in this rescission package. If it were, however, there would be significant savings to be found in export subsidy programs that spend over one billion dollars annually and accomplish nothing to regain U.S. market share. You also could look at scaling back the Conservation Reserve Program that costs taxpayers nearly two billion dollars annually and serves only to signal to the rest of the world that the United States continues its retreat from the international market. You also could look at the billions of dollars spent annually on commodity loan programs, which have not brought prosperity to rural America. In the coming weeks, we will be forwarding to the Congress specific recommendations for reforming these and other major farm programs.

As Congress looks to reinvent the Department of Agriculture and other departments, it needs to determine where departmental functions can be done best. Entire functions of the Department of Agriculture probably should be handled elsewhere. For instance, the Food Stamp and School Lunch Programs should be pooled into a single welfare block grant to the states, the activities of the Forest Service should be turned over to the states, and food inspection activities should be combined in one single agency. A bottom-up review of the federal government also should determine whether some agencies' functions, such as the Extension Service, any longer serve a purpose.

Those are issues, although important, which cannot be tackled today. However, even in the relatively limited part of the USDA budget that is not off-limits for purposes of this rescission, there are significant opportunities for savings. The committee should follow some guidelines in determining what to include in a package of rescissions.

- ① **Halt** funding for any project which was not authorized or which was earmarked in either the House, Senate, or conference committees.
- ② **Halt** funding for any new project which is of a purely local nature and has no national significance.
- ③ **Repeal** any committee instructions that force agencies to spend money they would otherwise not have spent.

Using these guidelines, the committee could find significant savings in the 1995 appropriations bill. I would like to point out some obvious candidates for inclusion in a package of rescissions:

⌘ **Research Programs**

The Department of Agriculture conducts various research programs through different agencies, including the Agricultural Research Service (ARS), the Cooperative State Research Service (CSRS), the Extension Service, and other agencies scattered throughout the Department. For FY 1995, the

ARS appropriation was more than \$696 million, while another \$433 million was provided for CSRS and \$439 million for the Extension Service.

In the future, the Congress needs to determine the appropriate role of government research. The government is conducting a great deal of commercially applicable research that should be funded by the private sector. The Extension Service's original mission was to instruct farmers in emerging agricultural technologies. The program long ago fulfilled its purpose on the national level, and federal funding should expire. The states and counties could carry on those activities that they choose.

In the research area, the following are specific areas that should be included in a rescissions package:

- ✓ **Extension Service Special Grants.** These are earmarked grants for which there is no peer review; nor are they subject to competitive bidding. Of the total FY 1995 appropriation of \$7,370,000, the House earmarked \$1,065,000; the Senate earmarked \$6,559,000; and another \$811,000 was earmarked in both the House and Senate appropriations bills. However, all of these earmarked amounts survived in conference, including \$5 million to the Delta Teachers Academy. Also, should the Department of Agriculture's Extension Service be funding the Rural Center for the study and promotion of HIV/STD prevention?
- ✓ **Cooperative State Research Service Special Grants.** This amounts to \$52,295,000 of earmarked grants that are neither peer reviewed nor put out for competitive bids. Included is \$644,000 for a rural policies institute. Does this constitute public funding for a think tank? Also, there is \$416,000 earmarked to study water conservation and water management. To what extent do these projects overlap other governmental efforts? The same question could be asked regarding the \$68,000 earmarked to study rural housing needs.
- ✓ **Cooperative State Research Service Buildings and Facilities.** This \$62,744,000 probably includes some of the least justified expenditures in the appropriations bill. These projects are all earmarked, and this money is not funding real research; instead it will assist various university building construction programs. Again, there is no peer review.
- ✓ **Agricultural Research Service Research Projects and Laboratories.** The list of earmarks and instructions for ARS research projects is extensive. In some cases, the conference report instructed the agency to spend certain sums of money on specified projects. In one case, the agency is instructed to continue to provide an adequate level of support for publication of a magazine. If, as the committee report claims, "the publication receives broad-based support from international and national agricultural research, professional, and trade organizations," then it should be able to operate by selling subscriptions and advertising, rather than being funded by the taxpayers. Also, the agency had proposed the closure of 19 laboratories or projects, but the conference report instructed it to keep 10 of them open. This action interferes with any effort to downsize government.

⌘ Lending Programs

This is another part of the Department of Agriculture in need of revolutionary change. When the Rural Electrification Administration was created, only 10 percent of U.S. farms and ranches had electricity. In 1949, the REA began providing rural areas with telephone service as well. Today, nearly 100 percent of all farms have electricity and 98 percent have telephone service. REA's mandate has been fulfilled; there is no justification for continuing the program. Now most recipients of these low-interest loans are financially sound utility companies. Many are subsidiaries of a few major companies, and most recipients do not serve low-density rural areas.

A complete review of all the programs within the Farmers Home Administration should be conducted as well. The agency should be examined with an eye to determining whether the government

should continue to play the role of a competitor with private lending institutions. I understand that the reforms that are needed cannot be achieved in this rescissions package. However, in the FY 1995 Appropriations Bill, there are some obvious candidates to provide savings:

- ✓ **Section 502 Housing Program.** This program is supposed to provide housing loans to low-income borrowers who live in areas with shortages of private mortgage credit. Last year, of the one billion dollars in guaranteed loans, the government lost \$17 million through defaults. On the other hand, of the one billion dollars in direct loans, the government lost more than thirteen times that amount, \$227 million. The Committee can achieve significant savings, approximately \$210 million, simply by moving these funds from direct loans to guaranteed loans.
- ✓ **Farm Ownership Loans.** The clear difference between the performance of direct loans and guaranteed loans is evident here. Guaranteed loans of \$540 million cost the federal government \$20 million, a 3.7 percent loss. However, direct loans of \$78 million ended up costing the government \$11 million, a 14 percent loss. By moving all direct loans to guaranteed loans, you could achieve savings of \$8 million in farm ownership loans.
- ✓ **Farm Operating Loans.** Here again, \$1.7 billion in guaranteed loans cost the government only \$9 million, while \$500 million in direct loans cost the government \$56 million. That amounts to a loss of only one-half of one percent as compared to 11 percent. All of these direct loan funds should be moved to guaranteed loans, which would save another \$53 million. From the experience with these programs, it is imperative that the federal government get out of the direct loan business entirely.

⌘ Food Programs

Finally, in this modest listing of immediate savings for a rescissions package, there is one more area in which savings can be found.

- ✓ **Unspent WIC Funds.** Since FY 1991, funding for the Special Supplemental Food Program for Women, Infants and Children (WIC) has increased from each previous year by at least \$224 million. In FY 1994, funding increased over FY 1993 by \$350 million. The unspent funds have now grown to \$150 million. As much as \$100 million of these excess funds could be included in a rescissions package without jeopardizing the program in any way.
- ✓ **Farmers Market Coupon Program.** This \$6.75 million program provides vouchers that can be used in fresh food markets by individuals in the WIC program. This money goes as a bonus to those already receiving benefits rather than to expand participation in the program. Also, the vouchers can be used only in qualifying farmers markets, although the products can be found in any supermarket. This is an unnecessary, duplicative program.



The items I have identified for rescission would eliminate clearly unnecessary spending in FY 1995 and would provide savings of at least \$500,159,000. It is a very modest savings compared to what could be achieved through a real reform of the entire Department of Agriculture, from top to bottom, and a thorough review of its programs and functions. However, I believe it marks a good beginning since downsizing the government must begin somewhere. While it is not possible in this rescission package to achieve the bold reforms necessary for agricultural policy, that must be a priority as the 1995 farm bill is debated. America's farmers and the rest of rural America cannot afford to see the opportunities that the future provides squandered in a status quo farm bill.