Testimony of Secretary Sonny Perdue

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The State of the Rural Economy
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Chairman Peterson, Ranking Member Conaway, and distinguished members of the Committee, I am honored to be with you this morning. Today's hearing marks my third occasion to appear before this Committee as the 31st Secretary of Agriculture. I thank you once again for the opportunity to testify about the current state of the rural economy and our work at USDA on behalf of the American people and our farmers.

Over the past year, USDA made great strides toward becoming the most effective, most efficient, and most customer-focused department in the federal government. Our Rural Development agency delivered the ReConnect program to create high-speed, reliable broadband e-Connectivity. The Food and Nutrition Service (FNS) finalized a rule to make school meals more appealing to children and reduce food waste through flexibilities in the National School Lunch Program and School Breakfast Program. FNS proposed another to encourage able-bodied adults without dependents to take steps toward self-sufficiency through the dignity of work. We refocused USDA to be more customer-oriented, merging offices and agencies where it made sense to maximize efficiencies, while modernizing and optimizing IT to improve delivery of services. The Interagency Task Force on Agriculture and Rural Prosperity, which President Trump established and appointed me as Chair, completed a report identifying over 100 federal actions to help improve life in rural America.

In addition to these notable achievements, USDA responded in 2018 to conditions that tested the resilience of the American farmer with initiatives to create economic conditions where they can prosper. With the help of crop insurance, natural disaster assistance programs, and short-term trade mitigation programs, many producers are managing the stresses of these difficult times and are indicating increased optimism, particularly with expectations that trade partnerships will strengthen in the near future.

The State of the U.S. Rural Economy

Ever since the record prices and farm income levels reached in 2013 the U.S. farm sector has faced declines, leaving producers increasingly vulnerable to production disruptions posed by natural disasters and market disruptions. Net farm income has fallen nearly 50 percent from its peak in 2013, as most commodity prices have fallen over the past 5 years while global stock levels have rebounded with several years of record production. We saw the largest U.S. soybean crop ever in 2017 and again in 2018, U.S. corn production was the second highest ever in 2017 and third highest ever in 2018. However, other countries have also seen high production numbers. In 2019, global production will continue to expand, trade challenges will persist, and these factors will continue to impact commodity prices.

As a result, many farmers will continue to face tight bottom lines with fewer resources. Our Chief Economist at USDA calculated that working capital has decreased by 70 percent since 2012. However, total cash receipts are forecast to be slightly higher in 2019 across crop and livestock commodities and average net farm income is forecast to be higher in 2019 compared to 2018. Overall, the record levels of crop and livestock production we have seen over the past few years have helped to stabilize farm incomes, despite their contribution to continuing low prices. Producers have reduced spending on inputs and tapped a combination of savings, loans, and off-farm income and assets to remain in business in the face of continuing stresses in the farm economy. After five years, however, those resources are dwindling for many.

Farm debt has been rising more rapidly over the last five years, increasing by 30 percent since 2013 --- up from $315 billion to $409 billion according to USDA data, and up from $385 billion in just the last year ---to levels seen in the 1980s. Demand for commercial farm operating loans continues to increase in most regions despite a steady, if slow, rise in interest rates on agricultural loans. Although the Farm Service Agency's (FSA) Farm Loan Program saw another slight annual decline in lending in 2018 following a year of bumper crops, loan demand remains historically high. Increasing farm financial stress could lead commercial lenders to seek more loan guarantees. FSA may see an increase in repayment difficulties with continued low commodity prices and expected increases in costs, though delinquencies have been stable and restructuring of direct loans fell slightly in 2018.

Relatively firm land values have kept farmer debt-to-asset levels low by historical standards at 13.5 percent and continued low interest rates have kept the cost of borrowing relatively affordable. But those average values mask areas of greater vulnerability. The strength of land values varies geographically, with some regions seeing greater weakness even as others hold steady or see modest increases. Debt-to-asset ratios vary among farm businesses by commodity specialization. Overall, however, the number of crop farms in a highly leveraged financial situation sits at about 1-in-10 and the number of livestock or dairy farms in a highly leveraged financial situation sits at about 1-in-15. Highly leveraged operations are more vulnerable to low prices or market disruptions and less able to recover from natural disasters.

U.S. farmers faced a number of natural disasters, including wildfires, hurricanes, droughts, severe freezes, and even a volcanic eruption. USDA responded with all the tools available to it, making timely payments for loss claims on crop insurance policies and through FSA's suite of disaster assistance programs for non-insured crops, livestock, trees, vines, and bushes. USDA also provided assistance to producers to install conservation practices on land damaged by severe weather and continues to provide help to communities to restore and enhance damaged watersheds and floodplains.

Producers also received payments during 2018 for losses from the disasters experienced in 2017. The Bipartisan Budget Act of 2018 provided $2.36 billion for expenses related to crop, trees, bushes, and vine losses from hurricanes and wildfires in 2017. The funds are being distributed to producers through the 2017 Wildfires and Hurricanes Indemnity Program, also known as WHIP. The program provides benefits above the crop insurance program and incentivizes future participation by requiring recipients to purchase buy-up coverage for the next two crop years.

In addition to weather and low commodity prices, farmers contended with significant market disruptions in 2018 arising from retaliatory tariffs that were affecting billions of dollars of agricultural trade and disrupting markets for commodities ranging from soybeans to almonds to hogs. To aid producers facing those disruptions, USDA developed a three-pronged approach at the request of President Donald J. Trump: the Market Facilitation Program to provide funds to help producers implement alternative marketing strategies for their products, the Food Purchase and Distribution Program to direct surplus food commodities to low-income Americans who need them, and the Agricultural Trade Promotion to develop new markets overseas. To date, those programs have provided more than $8 billion to assist with the disruption in commodity markets caused by unfair tariffs on U.S. agricultural products.

In many ways, 2018 underscored the financial risks farmers take to produce food, fiber and fuel for the fellow citizens. Regardless of the challenges the past year brought to rural America, farmers and ranchers are resilient and remain optimistic about the future.

Looking forward, USDA projects 2019 net farm income at $77.6 billion, a $14 billion increase from the projections made last year. The upward swing comes as USDA projects an increase in 2019 cash receipts — $375.8 billion in this year's report, rising $11 billion from last year — and a drop in cash expenses — $322.3 billion, a $3 billion drop from last year's projections. Direct government payment projections for 2019 rose $1.2 billion to $10.2 billion. The majority of farm households are at or above the median income for all U.S. households; and farms of all sizes face lower effective income tax rates due to the Tax Cuts and Jobs Act (TCJA)

It is in this context that USDA is undertaking the important work of implementing the 2018 Farm Bill.

Implementing the 2018 Farm Bill

The 2018 Farm Bill provides a strong safety net for farmers and ranchers, who need the long-term decision-making tool it affords. This Farm Bill also invests in important agricultural research and supports trade programs to bolster exports. While I feel there were some missed opportunities in forest management and in improving work requirements for certain SNAP recipients, this bill does include a number of helpful provisions, and USDA will continue to build upon these through our authorities. Overall, the new law fulfills the primary goal of farm programs: to help farmers and ranchers manage risks and continue producing food, fiber, and fuel in good years and as well as bad.

I applaud the many of you who worked to complete the 2018 Farm Bill just a couple of months ago. Having a Farm Bill in place gives our farmers, ranchers, foresters and producers peace of mind to make decisions for the future. At USDA, we committed to provide counsel to Congress at the outset of the legislative process and were pleased to complete over 2,000 pieces of technical assistance to the Congress as you wrote the bill. Now, we are eager to implement it.

I want to assure you that USDA is implementing the Farm Bill as quickly as possible. Deputy Secretary Stephen Censky is leading implementation efforts within the Department, following a process similar to one put in place by USDA to implement the 2014 Farm Bill. The implementation working group met initially on December 20th before the recent shutdown began. The entire team is working aggressively on implementation, and has catalogued the provisions requiring action, assigned them to responsible agencies and staff, and is finalizing timelines.

Agencies have also started gathering stakeholder input on how best to implement the provisions, in line with Congress' direction laid out in the law. On Tuesday, our Farm Production and Conservation mission area held a public listening session. Formal and informal listening sessions will continue in the weeks ahead.

As example of our early efforts, USDA already allocated Fiscal Year 2019 funding to recipients for the Market Access Program (MAP) and the Foreign Market Development (FMD) Program, which were both reauthorized in the Farm Bill. The allocations mark a significant investment in creating new export opportunities for our farmers and ranchers.

Other examples include USDA's work on core conservation programs – Environmental Quality Incentives Program (EQIP), Conservation Stewardship Program (CSP), Agricultural Conservation Easement Program (ACEP), and the Regional Conservation Partnership Program (RCPP) – which are on-track for FY2020 implementation as required by the Farm Bill. Natural Resources Conservation Service (NRCS) utilized mandatory program funding to keep staff working throughout the recent shutdown, providing significant time to begin building the framework for the new and revised conservation programs they are responsible for implementing.

In addition, the FSA dairy task force has begun to identify policy, software, training and other implementation issues and gather recommendations for leadership decisions. We understand the dairy industry's critical financial situation and we will make sure we prioritize the quick yet sound implementation of the industry's safety net.

My commitment is that USDA will plow ahead with implementation, working diligently to deliver quality programs that serve the urgent needs of our customers.

Among the provisions of the new Farm Bill are significant investments in USDA research. Congress' continued support for these programs is a reflection on our world-class research scientists and their track record of providing solutions to problems that affect farmers and the American consumer. I want our research programs to be on the cutting edge, and I believe that the research our scientists are conducting at USDA will be even more effective if the team is closer to the farmers they serve.

In August, USDA announced we would realign the Economic Research Service (ERS) under the Office of the Chief Economist and would relocate both ERS and the National Institute for Food and Agriculture (NIFA) outside of the National Capitol Region. Those changes are intended to improve customer service, strengthen offices and programs, and save taxpayer dollars. USDA received 136 expressions of interest submissions from 35 states. The firm Ernst & Young was retained to evaluate and conduct the site selection process. We recognize there are outstanding questions regarding this decision and are committed to an open process as we move forward together to address concerns.

Creating Conditions for Rural Prosperity

Before I conclude my testimony, I would like to address three topics that lie outside of the direct jurisdiction of this Committee but are among the top legislative priorities that farmers raise with me as I travel the country – I know these are important to the members of this Committee as well. As we implement the 2018 Farm Bill, we must also focus attention on favorably resolving these issues if we expect the full potential of our farm communities to be realized.

The first is that our farmers - the backbone of America - need access to a legal and stable workforce so American-grown products will continue to feed our nation and the world. In today's booming economy, many farmers are having trouble recruiting workers during peak seasons of need in rural parts of America. Estimates show currently over half of the experienced agricultural labor force is working without proper documentation on our farms, and the H-2A program is in need of improvement and modernization. Despite being a program used as a last resort, we have seen exponential growth in the H-2A program, suggesting that local workers are not available to do farm work. Farmers need long-term solutions that guarantee access to a legal and stable workforce. USDA is working closely with the Departments of Labor, Homeland Security, and State on revisions to the H-2A program; however, farmers need legislative reform that ensure access to a legal workforce.

The second is the importance of rebalancing our trading relationships with key agricultural trading partners, and we can start with Mexico and Canada. President Trump negotiated a better deal for U.S. farmers in the United States-Mexico-Canada Agreement (USMCA), as he promised. The USMCA represents greater export opportunities in these vital markets and will maintain and improve the highly productive integrated agricultural relationship we have as nations. Notably, as one of the President's top goals, this deal eliminates Canada's unfair 'Class 7' milk pricing scheme, cracks open additional access for U.S. dairy into Canada, and imposes new disciplines on Canada's milk pricing system. The agreement also preserves and expands critical access for U.S. poultry and egg producers and addresses Canada's wheat grading process, so it doesn't discriminate against U.S. wheat growers, including those along the border. We also hope for rapid progress in negotiating agreements with Japan, the EU, and the UK, resolution of China negotiations, and potential new agreements with other Asian markets that will expand opportunities for agriculture.

Finally, farmers and ranchers were battered last year by a series of monumental storms, robbing them of their livelihoods and inflicting damage well beyond the financial risks they normally assume in their operations. These are the men and women who dedicate their lives to feeding, fueling, and clothing this nation, and we cannot turn our backs on them when they need assistance. Just as important, another devastating wildfire season left our Forest Service badly in need of replenished funds to fight fires, remove excess fuels, and conduct necessary forest management. Without these resources, we risk falling behind in forest maintenance and inviting even more severe wildfire seasons in the future. In 2017, Congress provided supplemental assistance for producers who experienced losses not covered by existing forms of relief. USDA stands ready to quickly implement assistance, bolstered by lessons learned, for similar losses in 2018 should Congress decide once again to act.

The distinguished members of this Committee represent the size, scale and reach of American agriculture, and rural America is counting on your leadership as these issues come before Congress for consideration. I look forward to continuing to work with President Trump and the members of this Committee to address these critical issues on behalf of those living in rural America.

Conclusion

Over the past two years, my team and I have traveled across the country to hear directly from the people we serve: farmers, ranchers, consumers, foresters, school children and others touched by the work of USDA each day. I am proud of the men and women at USDA who strive each day to improve life in rural America and provide the highest level of customer service. As we work to implement the 2018 Farm Bill, we will always keep in mind our motto to "Do Right and Feed Everyone."

Thank you for the opportunity to testify this morning. I would be happy to answer any questions at this time.