Testimony of Secretary Sonny Perdue

U.S. Department of Agriculture
before the
United States House Committee on Agriculture

The State of the Rural Economy
March 4, 2020

Chairman Peterson, Ranking Member Conaway, and distinguished members of the Committee, it is a privilege to once again appear before this Committee as the 31st Secretary of Agriculture and testify on the state of the rural economy.

Sowing Prosperity in Rural America

Since we last met, USDA has worked diligently to implement the 2018 Farm Bill. Among our milestones, I committed to you in February last year we would offer the Dairy Margin Coverage (DMC) Program, a significant new risk management tool, in June of 2019, and we followed through. Implementation of conservation programs by the Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS) is on track as well, including FSA's 54th Conservation Reserve Program general sign-up, which opened in December – another commitment kept. We established the U.S. Domestic Hemp Production Program in advance of the 2020 planting season and adapted several existing programs to this promising commodity not widely cultivated since 1937.

USDA made strides to reduce trade barriers and ensure farmers, ranchers, and food manufacturers and workers can fairly compete against anyone in overseas markets. Examples of our accomplishments include securing full access for beef to Argentina and Japan, restoring market access for poultry and poultry products to China, improving access for wheat to Brazil, and guaranteeing rice access to the Korean market. In our effort to promote U.S. products around the world, USDA led six trade missions that enabled more than 170 U.S. companies and organizations to engage in 3,200 one-on-one meetings with foreign buyers. Our trade missions and 22 endorsed trade shows generated nearly $3 billion in projected export sales, while our export financing programs supported another $2 billion in exports in 2019. President Donald Trump, meanwhile, laid the foundation for a stronger farm economy through trade accomplishments like the Phase 1 Deal with China, USMCA, and trade agreement with Japan, which USDA will look to build upon in 2020.

Not only is the United States producing food efficiently and sustainably, but most importantly we have one of the safest food supplies on the planet. Over the last decade, USDA has modernized inspection systems to align with 21st century technology and to prevent the hazards that we cannot see — the invisible pathogens and microbes that cause foodborne illness. USDA is committed to using the best science and technology available to protect the American food supply and ensure the safety of meat, poultry, and processed egg products.

As we served out our motto to "Do Right and Feed Everyone," USDA finalized a rule that will encourage more American to enter, re-enter, and remain in the workforce, helping individuals and families start on a path to a better life, The Trump Administration has produced the longest economic expansion in U.S. history, with an unemployment rate of 3.6% and 6.8 million job openings. All individuals deserve the dignity of work and the lasting transformation it provides to achieve their own American dream. Congress asked us in the 2018 Farm Bill to focus on case management and promote the long-term success and self-sufficiency of SNAP recipients and later this week, we will be issuing a proposed rule that will strengthen the way states serve our customers through Employment and Training programs. We believe that human connection, not just a monthly SNAP benefit, has the power to change people's lives.

USDA plowed ahead with IT modernization initiatives to improve customer experience. Customers can now discover our national treasures on Recreation.gov or save time and paperwork associated with disaster assistance, farm programs, and H2A applications on Farmers.gov, all using our interactive tools in the palm of their hand. USDA also developed dashboards across eight Mission Areas and seven administrative functions, which provide employees with sophisticated data analytics to improve internal decision-making and maximize the impact of customer-facing programs. USDA will continue innovating across the enterprise to achieve faster, easier, and friendlier programs, with a special focus on areas of greatest potential impact on customer service, like expanded payment options for farm programs, automated AGI threshold compliance, and digital acreage reporting.

The Forest Service used the new Farm Bill and 2018 Omnibus authorities to do work in the right place at the right scale. We sought to improve forest conditions across all forests by setting aggressive targets for treating acres and producing timber volume. At the same time, we maintained our commitment to reducing hazardous fuels and restoring forest health. In 2019, USDA signed shared stewardship agreements with twelve states and the Western Governors Association to better coordinate our forest and grassland management resources and priorities. In the coming year, USDA will seek to more than double our shared stewardship partnerships.

USDA worked closely with the Environmental Protection Agency (EPA) to strengthen America's energy production, energy security, and supported our Nation's farmers by promoting domestic ethanol and biodiesel renewable fuel use through the approval of year-round E-15. We provided greater transparency and certainty in the Renewable Fuel Standard by making the commitment to ensure that 15 billion gallons of conventional ethanol be blended into the nation's fuel supply beginning in 2020, and that the volume obligation for biomass-based diesel are met.

Last week, as part of President Trump's key promise to promote biofuels I announced USDA's Higher Blends Infrastructure Incentive Program (HBIP) which will open for application early this summer and will provide for $100 million in grants to better enable market adaptation for higher blends of ethanol and biodiesel by investing in infrastructure. More than that USDA is putting our money where our mouth is. Last week I directed the USDA to increase the number of biofuel-capable vehicles, and the use of biofuels, in our fleet operation which is one of the largest fleet operations in the federal government. This Administration will continue to support renewable fuels, including ethanol, biodiesel, and biomass to achieve market-driven demand.

President Donald J. Trump is also sowing prosperity in rural America through broadband deployment. USDA's initial round of the ReConnect Pilot Program provided $751 million in grants and financing for 83 projects to extend broadband access to 431,000 rural Americans. USDA is helping reconnect rural communities to each other and the rest of the world, giving patients access to telehealth, students access to digital learning, and farms and businesses access to new technology and innovation. In December, USDA launched Re-Connect Program Round 2. The Rural Utilities Service is now accepting applications, grants, low-interest loans, and 50/50 grant/loan combinations. In Fiscal Year 2019, Congress appropriated $550 million and an additional $555 million was made available in the FY2020 Appropriations Act. In total, USDA now has $1.1 billion waiting for rural broadband deployment. I often say we need a moonshot approach to bring high speed internet access to everyone in rural America. I extend my appreciation for Congress' continued commitment and investment in our ReConnect efforts.

Despite our accomplishments in 2019, USDA recognizes these are challenging times and current state of the rural economy compels us to do more.

The State of the U.S. Rural Economy

For 2020, net farm income is forecast at $96.7 billion, a three percent increase compared to 2019. While 2020 net farm income is still forecast far below the inflation-adjusted peak of $139.1 billion in 2013, 2020 net farm income is anticipated to be five percent above its inflation-adjusted average (2000-2018) of $91.7 billion. This forecasted increase is in spite of a decrease in government payments and the trade deal with China not yet fully realized in market prices.

Net cash farm income is forecast to decrease by nine percent from $120.4 billion in 2019 to $109.6 billion in 2020. However, the 2020 net cash farm income forecast is line with its inflation-adjusted average (2000-2018) of $110.2 billion. The difference between the increase in net farm income and the decrease in net cash farm income is due to changes in crop inventory. Net farm income accounts for the value of an increase in crop inventory, reflecting the increased value of production for the year. Net cash farm income accounts for the value of sales from inventory, so when inventory is held, that value does not add to net cash farm income. Given the poor weather in 2019, producers had to draw down crop inventories in 2019, adding to 2019 net cash farm income, whereas net farm income for 2020 reflects the forecast for better crop production that will allow for holding larger crop inventories.

Spring flooding in 2019 pummeled the Midwest, leading to the slowest planting progress on record for corn. For 2019, roughly 20 million acres were recorded as "prevent plant," which is nearly double the previous record set of 11 million acres in 2011. The continuation of cold and wet conditions, and an early blizzard in October located in the Dakotas and Minnesota, led to hardship during harvest. This led to many acres of corn, soybeans, and sugar beets being left unharvested at the end of 2019. However, for 2020, cash receipts are anticipated to increase by one percent for crops overall, generally due to higher production, and 4.6 percent for livestock due to both higher prices and production.

For 2020 we anticipate that producers will spend more on production with most expenses, including feed, labor, and fuel forecast to rise relative to 2019. This year will be the first since

2014 that total inflation-adjusted production expenses at the sector level are forecast to increase. Producers have less cash on hand as working capital is forecast to fall 15 percent from 2019 and 57 percent from the most recent peak in 2014. The decrease is the result of current assets—the value of items such as crop inventory, non-breeding animal inventory, and purchased input inventory—decreasing by four percent, while current debt—debt in which payments are due in the next 12 months—increases by two percent.

Farm sector debt continues to grow and is forecast at $425 billion with $265 billion in real estate debt—including loans using real estate as collateral—and $161 billion in non-real estate debt. Accounting for inflation, equity is forecast to decrease 0.7% in 2020 compared to the previous year, while debt is anticipated to increase 0.5%. This puts the debt-to-asset ratio for the farm sector at 13.59 for 2020, the highest level since 2003 and passing the levels seen during the Great Recession. These overall values can mask areas of even greater vulnerability. The strength of land values varies geographically, with some states, like New Mexico, Minnesota and Georgia, seeing greater weakness even as others—such as California, Utah, and Idaho—hold steady or see modest increases. Debt-to-asset ratios also vary among farm businesses, with some commodity specializations showing a much larger share of highly leveraged operations. Overall, the number of crop farms in highly leveraged financial situations is approximately 1-in-12 and the number of livestock and dairy farms in highly leveraged financial situations is approximately 1-in-16.

As farms become more financially vulnerable, the risks of loan delinquency and bankruptcy increase. For Farm Service Agency (FSA) direct loans, the rate of delinquency was similar at the end of 2019 compared to the rate of delinquency at the end of 2018. However, the rate of Chapter 12 bankruptcy—bankruptcy specific to family farmers and family fishermen—is nearing 3 bankruptcies per every 10,000 farms, a rate we are monitoring, but is still low compared to the 1980s. The bankruptcy rate varies substantially by state. For example, in Wisconsin the rate is around seven bankruptcies per every10,000 farms, while in Illinois the bankruptcy rate is roughly 2 bankruptcies for every 10,000 farms.

Our farmers work hard, are the most productive in the world, and we aim to match their enthusiasm and patriotism as we support them. When conditions test the resilience of the men and women who feed, fuel, and clothe the nation, President Trump has called on USDA to respond, and 2019 was no different.

Standing Up for America's Farmers and Ranchers

When I appeared before this Committee a year ago, the fallout of monumental storms and wildfires was testing the resilience of producers in the southeastern and western U.S. In 2019, farmers faced exceptional new challenges. Natural disasters, floods, drought, blizzards, and severe freezes dealt a hefty blow to some of the most productive regions in the heartland. USDA responded with all the tools available, making timely payments for loss claims on crop insurance policies and utilizing FSA's suite of disaster assistance programs for non-insurable crops, livestock, trees, vines, and bushes. USDA aided 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. In addition to these tools, USDA implemented the Wildfires and Hurricanes Indemnity Program Plus (WHIP+) using the funding provided by

Congress under the Additional Supplemental Appropriations for Disaster Relief Act of 2019 and the Further Consolidated Appropriations Act. WHIP+ enabled $242 million in relief to-date for losses in 2018 and 2019, representing 10,433 applications, and our diligent FSA staff continue to process new loss claims. This supplemental funding also provided roughly $592 million in additional assistance to producers who experienced unprecedented prevented planting in 2019. USDA is steadfastly implementing the new funding and authorities Congress provided in December. Although disaster assistance will not make producers whole, we hope the assistance will relieve some of the financial strain farmers are experiencing.

While President Trump worked to address long-standing market access barriers across the U.S. economy, China, EU, Turkey, and India honed their pressure on the American farmer, for whom the success of producing abundance and selling to the world made especially vulnerable to trade disruptions. The President stood with Rural America. After unjustified retaliatory tariffs from foreign nations targeted billions of dollars of agricultural trade and disrupted markets for commodities ranging from soybeans to almonds to pork, President Trump directed USDA to support our U.S. farmers and ranchers. While President Trump worked to address long-standing market access barriers, USDA continued its three-pronged approach developed in 2018 with modifications to make the Support Package for Farmers stronger and more effective for producers, authorizing up to $16 billion in support to respond to trade disruptions and unjustified retaliation.

The Market Facilitation Program (MFP) provides funds to help producers implement alternative marketing strategies for their products. MFP was designed to help all farmers hurt by tariffs, but payment rates reflect the severity of the impact of trade disruptions, as some export-dependent commodities, such as soybeans, suffered larger trade damage than others that are less dependent on the markets affected by retaliation Although the commodities most affected by the tariffs are generally produced on larger farms simply by the nature of the commodities themselves, USDA applied payment limitations and income-based eligibility criteria to limit large payments to single farms consistent with what Congress established for traditional farm programs and recent supplemental disaster assistance programs. In addition, recipients were required to be actively engaged in farming with respect to "covered commodities," which is assessed based on their contribution of inputs or management services to the operation. While limiting mechanisms effectively lowered payments to large producers, USDA also established a minimum per acre payment at $15 to increase assistance for farmers who produce on a smaller scale or grow commodities less affected by retaliatory tariffs. Although there has been much discussion about the size of farms and regional distribution of the MFP assistance, by design, the assistance flowed to states that produce or export the commodities most affected by retaliatory tariffs and the farms growing those commodities received more in assistance, subject to the guardrails highlighted above. The top commodities affected by the unjustified retaliatory tariffs were row crops, hogs, dairy, cherries, and almonds and those commodities -especially row crops - are generally produced on larger farms simply by the nature of the commodities themselves. The top states that received the assistance include Iowa ($1.6 billion), Illinois ($1.4 billion), Texas ($1.1 billion), Minnesota ($1.1 billion), and Kansas ($1 billion) among the top five for 2019 MFP payments. Between July 25th, 2019, when MFP was first announced and through the third and final tranche announced on February 3rd, 2020, FSA processed 1.8 million MFP transactions, providing more than $14 billion to 658,356 farmers.

The Food Purchase and Distribution Program (FPDP), the second prong of our Support Package for Farmers, acquires surplus fruits, vegetables, milk and meats affected by trade retaliation. All products purchased were grown and raised on American farms by American farmers. FPDP represents a collaboration between the Agricultural Marketing Service and the Food and Nutrition Service to do right and feed everyone, acquiring the abundance of America's harvests for delivery to food pantries, school meals and other outlets serving low-income Americans. Examples of products delivered to those in need include pork, poultry, citrus, apples, and blueberries, to list a few. Through the first quarter of Fiscal Year 2020, USDA purchased nearly $350 million, or more than 7,000 truckloads, worth of nutritious American-raised food, including pork, poultry, citrus, apples, and blueberries, to list a few. In the months ahead, USDA is working to reach its target of $1.4 billion in total purchases.

Agricultural Trade Promotion (ATP) Program, or the third prong of our Support Package for Farmers, awarded $100 million to 48 cooperator organizations to support trade missions and promotional activity for U.S. agriculture, food, fish and forestry products abroad. By providing foothold in new export markets, ATP funding will continue to generate sales and business for U.S. producers and exporters many times over for years to come.

Our trying times in rural America call upon our immediate assistance but also focus USDA on establishing a vision for sustaining U.S. agriculture's leadership in the world.

Envisioning the Future of U.S. Agriculture

We know ahead of us lies a dual challenge to produce enough food and agricultural products to meet the needs of a growing population and protect the natural resource base on which agriculture depends – both for current and future production. This challenge demands bold goals and bold actions. The Agriculture Innovation Agenda I announced on February 20, 2020, at our Agricultural Outlook Forum is USDA's commitment to the continued success of American farmers, ranchers, producers, and foresters in the face of these future challenges. Our commitment is bold: to increase U.S. agricultural production by 40 percent while cutting the environmental footprint of U.S. agriculture in half by 2050. This is a department-wide effort to align USDA's resources, programs, and research to provide farmers with the tools they need and to position American Agriculture as a leader in the effort to meet the food, fiber, fuel, feed, and climate demands of the future. I welcome your partnership as USDA supports farms of all sizes by setting goals and prioritizing innovation through research and program delivery through our Agriculture Innovation Agenda.

Advances in biotechnology have great promise to enhance rural prosperity and improve the quality of American lives. Gene editing has emerged as a formidable agricultural tool to help the world meet its food production needs and increase the productivity of the American farmer and rancher by improving crop quality, increasing the nutritional value of crops and animal products, combatting pests and disease, and enhancing food safety.

USDA is actively working to ensure our domestic producers have access to these technologies by implementing President Trump's Executive Order 13874 (Modernizing the Regulatory

Framework for Agricultural Biotechnology Products), which directs USDA and other federal agencies to streamline our regulatory processes and facilitate the innovation of agricultural biotechnology to the marketplace through a predictable, consistent, transparent, science-based and risk-proportionate regulatory system.

Farmers need access to a stable and legal workforce to help cultivate, harvest, and deliver to market America's agricultural abundance. Many farmers experience trouble recruiting workers during peak seasons of need in rural parts of America, and our record-long economic expansion and low unemployment have compounded this problem. Estimates show currently over half of the experienced agricultural labor force is working without proper documentation on our farms, and the H-2A program needs 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 has worked closely with the Departments of Labor, Homeland Security, and State to modernize the burdensome H2A application process, making it easier for farmers and ranchers to follow the law and hire farm workers through the H-2A program. However, there are dimensions of this challenge only Congress can address, so we hope to see Senate and Conference actions to yield a bill President Trump can sign.

I know Members who serve on this Committee and beyond share my goal to ensure USDA is adequately staffed to deliver efficient and effective service for our farmers, ranchers and rural communities. Even as USDA strives for innovation, automation, and business process re-engineering – customers will always count most on our people. For the fifth consecutive year, attrition at USDA outpaced hiring in Fiscal Year 2019. Our agencies hired 5,002 permanent employees, while 6,954 employees left USDA, most of whom were field based. Already in Fiscal Year 2020, USDA faces a deficit of hiring to attrition of nearly 600 employees. The pace of attrition places an extraordinary demand on a federal hiring process that is encumbered with hundreds of pages of requirements that frustrate qualified candidates and hiring managers alike. To help overcome this mounting challenge, USDA requested and received limited, temporary direct hire authority from the Office of Personnel Management for field and front-line positions in FSA, NRCS, Forest Service, Rural Development, and other agencies with significant field operations. Nonetheless, our administrative direct hire authority is limited by position, location, and duration and retains many restrictive features of the traditional federal hiring process, so I am asking for your help in authorizing expanded direct hire flexibility at USDA to fill our field and front-line positions.

Conclusion

Before I conclude, I want to thank our dedicated employees, without whom our service to rural America would not be possible. In 2019, we asked more of our people than perhaps at any other point: implementation of a new Farm Bill, execution of two Support Packages for Farmers, implementation of a supplemental disaster assistance program and its subsequent revisions, all in addition to their normal operations. It is a privilege to lead OneUSDA, while we strive 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.