

# CROP-SHARING HUNGER RELIEF ACT

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
ENERGY AND AGRICULTURAL TAXATION  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED SECOND CONGRESS

FIRST SESSION

ON

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# CROP-SHARING HUNGER RELIEF ACT

WEDNESDAY, OCTOBER 16, 1991

U.S. SENATE,  
SUBCOMMITTEE ON ENERGY AND  
AGRICULTURAL TAXATION,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 2:00 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Tom Daschle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press Release No. H-44, Oct. 10, 1991]

HEARING PLANNED ON CROP-SHARING HUNGER RELIEF ACT; DASCHLE BILL WOULD  
USE SURPLUS COMMODITIES TO COMBAT HUNGER

WASHINGTON, DC—Senator Tom Daschle, Chairman of the Finance Subcommittee on Energy and Agricultural Taxation, Thursday announced a hearing on S. 1826, the Crop-Sharing Hunger Relief Act.

The hearing will be at 2 p.m. Wednesday, October 16, 1991 in Room SD-215 of the Dirksen Senate Office Building.

Daschle (D., South Dakota) said the hearing, which coincides with World Food Day, will give the Senate and the public a chance to explore an innovative proposal that addresses the dual challenges of creating new markets for surplus agricultural products and feeding the hungry. He said testimony will examine the bill from both an agricultural and hunger-relief perspective.

"In my years as a representative for the state of South Dakota, I can say that nothing frustrates a farmer more than to have grain wasting away in a bin because prices are too low to sell it, while he watches television news stories about the growing numbers of hungry people around the world," Daschle said.

"There's something wrong in a world where we have bushels and tons of excess commodities rotting and spoiling while millions of people are starving," Daschle said.

## OPENING STATEMENT OF HON. TOM DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA, CHAIRMAN OF THE SUBCOMMITTEE

Senator DASCHLE. The hearing will come to order. I want to welcome everybody this afternoon. We are here to discuss the Crop-Sharing Hunger Relief Act, a proposal that seeks to address simultaneously the twin concerns of world hunger and agricultural surplus.

The evidence shows that hunger persists throughout the world. Perhaps the most surprising is the level of hunger right here in our own country. We will hear testimony from the Food Research and Action Center, which recently completed a study showing that hunger afflicts one in eight American children.

Meanwhile, the Commodity Credit Corporation holds millions of pounds of butter, corn and other commodities in its inventory, and

thousands of acres of farmland sit idle. Without new markets for our domestic agricultural products, commodity prices will remain low and Federal farm subsidies will remain high.

The proposal we are discussing today seeks to attack both of these problems at once. It would give taxpayers a special deduction when they purchase surplus commodities and donate them to qualified organizations that provide hunger relief in this country and abroad. The deduction would be based on the lesser of the parity price of the commodities or two times the cost to the taxpayer of purchasing the commodities.

The concept of using surplus commodities to feed the hungry is not new. In fact, it was the basis for the P.L. 480 Food for Peace program which was enacted in the 1960's and still exists today. What is new about this proposal is that it would provide an incentive and hopefully a structure for individuals to become more involved in the effort to transport surplus commodities to the hungry.

Those who originally proposed the approach envision its potential success as so great that a substantial new market for American agricultural commodities would develop, leading to fairer prices for farmers and lower Federal agricultural subsidies.

Today is an appropriate day to review a proposal of this nature because it is World Food Day. Created by the member nations of the United Nations Food and Agricultural Organization, World Food Day is now observed in more than 150 countries. Its purpose is to focus attention on all food and farm problems and to get people involved in the search for solutions to those problems.

But World Food Day is more than just an opportunity each year for people to think about food deprivation and what we can do to help hungry people. It is also intended to be a starting point for action, concrete sustained action. World Food Day is celebrated very much at a grass-roots level, and the proposal before us today fits particularly well with that philosophy, because it would encourage every individual in this country who pays tax to participate in reducing hunger.

Before the Crop-Sharing Hunger Relief Act can become law, it is vital that we scrutinize it. As a member of the Senate Finance Committee, I will study the potential revenue impact of the proposal. I have already asked the Joint Committee on Taxation to begin analyzing this factor. At some point in the future I will consider holding further hearings to focus on this and other economic effects of the proposal.

But today we will focus on the feasibility of the proposal from an agricultural and hunger relief perspective. A legitimate question to ask is, of course, "Will it work?" I invite our panels of witnesses to respond to that question. I am convinced this and other innovative approaches must be examined in every possible way to ensure that we do succeed in bringing about fairer agricultural prices, in bringing about better and more innovative approaches to world hunger, in bringing about a better concept through Federal policy in dealing with these issues far more effectively than we have in the past.

As always, I would hope that our witnesses would limit their remarks to 5 minutes. Longer statements and additional comments can be submitted for the hearing record.

We are very pleased to have the witnesses that we have before us this afternoon. They have a tremendous amount of expertise in this area, and I am pleased at this time to call Bruce Gardner, the Assistant Secretary for Economics, the Department of Agriculture, to the stand to begin.

Mr. Gardner, we are pleased you could be here. We encourage you to proceed with your testimony.

**STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY  
FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE**

Mr. GARDNER. Thank you very much, Mr. Chairman. I appreciate the opportunity to be here and I will just give a brief summary of my written testimony.

World Food Day, as you said, is a most appropriate occasion to discuss legislation to help the world's hungry people. The goals of the legislation are in keeping with the spirit of World Food Day. But we see difficulties with the bill's proposals for achieving these goals and because of them the administration must oppose the legislation.

Some of the problems arise from the way the Crop-Sharing Hunger Relief Act fits in with the already existing charitable efforts to redistribute surplus agricultural commodities to the hungry. I would like briefly to outline what those efforts are.

The American people now contribute about \$90 billion annually to charitable organizations and of this amount private voluntary organizations, or PVO's registered with the USAID received \$2.3 billion in private cash and in kind contributions in fiscal year 1990.

Governmental programs are already in place with the same goals of helping the needy and the hungry, reducing surpluses and improving farm income. These programs operate both domestically and internationally and receive funding of over \$20 billion annually.

The keystone of the proposed legislation is the incentive created by increasing the allowable Federal income tax deduction for commodity donations. The taxpayer would be allowed to claim a charitable contribution deduction equal to the parity price or 200 percent of the taxpayer's purchase price, whichever is less. This effectively doubles the tax benefit of surplus commodity donations relative to other charitable contributions.

A taxpayer having a 31 percent marginal Federal tax rate would receive Federal income tax savings of 62 cents for each dollar of surplus commodity contributed. In many instances an additional savings in State income taxes can be expected as a result. The after-tax cost to many taxpayers would be in the neighborhood of one-third of the contributed amount.

Let me just mention some implementation issues. Implementing this legislation involves the mechanics of what commodities would be covered, the parity pricing provision, and how it would be applied, how individual donors would interact with eligible PVO's, how the PVO's would handle and finance their supporting role and how compliance with the bill's provisions would be monitored.

The responsibilities of the Department of Agriculture involve determining eligible commodities and pricing these commodities for tax deductibility purposes.

The eligible commodities are defined as a list of surplus commodities. The concept of a surplus commodity is not as easy to define as you might at first suppose. But it seems clear that we should focus on either low prices or large stocks or government intervention to support the price.

Different ways of identifying surplus commodities conflict with one another to some extent. For example, wheat has an acreage reduction program, but because the program has reduced supplies there are not presently surplus U.S. stocks. Indeed, we now refer to the wheat market as being tight in the historical comparison sense.

The use of parity prices to determine the deductible value of commodity contributions introduces some complications. The parity price changes each month as the prices of farm inputs change. Thus a rise in the farm wage rate would change the parity price of every commodity and hence the amount that could be deducted. Yet the surplus situation and the market value of the commodity might be completely unchanged. Thus, the use of parity prices does not contribute to and may even detract from the bill's focus on surplus commodities.

An important practical affect of the parity pricing provision is to prevent some commodities from being donated. Those commodities with prices greater than 50 percent of parity would receive a deduction of less than 200-percent of the market price.

Let me give an example. Using the July 1991 data—and there is a table of these data in the written testimony—potatoes have a market price of \$8.14 per hundredweight and a parity price of \$11.00. If I donate \$1,000 worth of potatoes I receive a tax deduction of \$1,351. But if I donate \$1,000 worth of corn I receive a \$2,000 deduction. That is because the market price of corn is less than 50 percent of the parity price.

In these circumstances I would be foolish to donate potatoes. The bill similarly would discriminate against donations of meats, apples, many other fruits and vegetables, in fact, quite a long list of commodities. Even more important, the bill would discourage donations of processed food products since they have no parity prices and you would then receive only the market value of the item.

Let me talk about some other possible consequences of the changes proposed. The key consequences of the legislation are the effects on hunger relief, other charitable giving, U.S. tax revenue, farm program outlays, farm commodity prices and farm income. We already have policies addressed to all these areas and the question arises as to how the proposed program would work in conjunction with these policies.

On the hunger relief efforts, this proposal will change the way international relief organizations operate, perhaps moving them from demand driven requests towards supply driven shipments. But I would defer to these organizations to identify possible problems here.

Non-food charitable contributions. I think we have to remember this legislation implicitly contains a judgment that food donations are socially twice as valuable as other charitable contributions.



Perhaps even more so. Because these other domestic organizations are already struggling we do not want to put them at a disadvantage relative to food donations.

Can I take another 30 seconds?

Senator DASCHLE. Sure.

Mr. GARDNER. Thank you.

Although I think it is wise to take the course you were mentioning of deferring the budgetary analysis because this is a very complicated subject in itself, I did want to say something about the Federal tax outlays and possible tax receipt consequences of this approach, because I think there are some potential problems.

Let me just run through a very quick example of how I see this program would fit in with current commodity programs. Let's suppose that this new program causes contributions to eligible PVO's to rise by \$500 million. That would be in addition to the \$2.3 billion that the statistics I cited earlier suggested they get now.

And suppose that the commodity donated, to make things simple, is wheat, and at the current price \$500 million would buy about 180 million bushels of wheat. Then the foregone tax revenues, assuming the contributors pay a marginal Federal tax rate of 31 percent, would be \$310 million. We get that by taking the \$500 million donation, doubling it, and then taking 31 percent of that.

In addition, though, a large fraction of the donations that the PVO's currently receive would be converted to eligible commodity donations since the donor gets a double deduction for doing so. Suppose that half of the existing \$2.3 billion is converted to this sort of donation. This implies additional tax revenues foregone of \$1.15 billion times the 31 percent marginal rate or \$360 million. So, therefore, we would have tax receipts falling by a total of \$770 million.

Now the other side of this is that because wheat is a farm program crop there is a potentially offsetting reduction in Federal expenditures on these programs. An increase in wheat demand of 180 million bushels would raise U.S. wheat prices substantially. We would estimate about 30 cents a bushel. This price increase would lower wheat deficiency payments by about \$570 million. This would offset a large amount of the additional Federal budget cost of \$770 million. But the \$770 million in tax revenues lost, minus the \$570 million in wheat program savings gives you a \$200 million net loss of Federal revenue.

But there are several factors that would make the likely deficit increase larger than that. First, the in-kind donations will not all be made in a farm program crop. Second, donations of other program crops would result in smaller farm program savings than in wheat. Wheat is a good commodity for donations for this purpose. Third, if there is a net increase in foreign shipments of wheat or other commodities because of this program, there is nothing in the legislation to prevent a country that receives the donated commodity from reducing purchases of the commodity through other sources. This would dilute the net increase in price and demand for the U.S. wheat that the calculations I gave assume happens.

So in short, while the goals of the Crop-Sharing Hunger Relief Act are certainly worthy, the parity provision limiting the commodities donated, the high value placed on food donation detracting from other voluntary giving and the potential budgetary costs

make the administration unable to support the proposal as it stands.

This concludes my testimony and I would be glad to answer any questions.

[The prepared statement of Mr. Gardner appears in the appendix.]

Senator DASCHLE. Besides that, what do you think? [Laughter.]

That was only made half in jest. I guess I would have preferred, I would have hoped that you could have come forth with a way that you felt we could make this work, rather than the broad side on the legislation itself. I mean, basically what I hear you saying is that this is a lost cause, and I am really disappointed.

I mean, I do not know that one can project as you have the cost of the program at this point without having a better understanding of the kind of response there would be. No one knows at this point what the response will be.

You mentioned parity. One always knows what fair market value, what the parity price of any agricultural product is. That is a given. So much of what you argued as the reason for opposing this, that is not pegging a commodity price on a program crop, or I should say a non-program crop, ignores the fact that we know what parity is for any commodity. We can associate that commodity price with a given value in any given year.

Isn't that right? What would be your response to that?

Mr. GARDNER. You know the parity price. But my problem is, with the relationship between the parity price and the concept of a surplus commodity. I do think that the focus on surplus commodities is appropriate, but I do not think that using the parity price contributes to that end.

Senator DASCHLE. But that is not what you just said in your testimony. You said there is not a parity price for some of these commodities.

Mr. GARDNER. No, I was talking there about the processed commodities. That is, instead of donating raw agricultural materials—

Senator DASCHLE. But we are not talking about processed commodities; we are talking about the commodities themselves.

Mr. GARDNER. But my point about processed commodities is that there are perhaps good reasons sometimes to use those in donation programs and from the point of view of this legislation then processed food commodities become like non-food commodities. There is a general thrust of encouraging donations away from those commodities and toward the raw material type commodities.

Senator DASCHLE. Why would it be away from and toward rather than addition to?

Mr. GARDNER. It would be in part an addition to, but just for example, if I am now making donations to CARE or other organizations that involve processed commodities I find now that I can double my tax deduction by shifting that giving toward raw material commodities. I mean you will see some shifting. You will see some additional response. I have no doubt of that. But why set up that tension between the different kinds of commodities when you do not have to.

Senator DASCHLE. What type of tension is there? Is there a tension now between giving to a food organization and giving to an educational organization?

Mr. GARDNER. No.

Senator DASCHLE. If that tension exists, it is going to exist. The fact is we are giving more people an opportunity to become participants, another avenue, another approach that may work for them that did not work for whatever reason before.

Here they have a motivation that goes beyond the most important, which is to provide food for the needy. Here they also have an opportunity to relieve surpluses, to help increase the market value of a product. So I could see people in rural areas say, "My goodness, this really is a golden opportunity for us to do more than one thing and to take advantage of it in a very simple way."

I tell you what it sounds like to me, Mr. Gardner, it sounds like the administration says, "we are going to oppose this, now let's come up with the reasons." Rather than to say "Let's weigh this thing and then let's decide whether we oppose it or support it."

I sense that they saw the title, they saw the sponsor, and they said, we are going to oppose this and now we are going to come up with a good 5-minute statement as to why it is not going to work. Is that not the reason? Is that not the motivation?

Mr. GARDNER. No, that is not the reason at least when we developed this testimony. Because after all we do have a substantial amount of food assistance programs, P.L. 480, the other programs. There is no problem with this type of program. And if there were a way to handle the proposed program without creating the problems that I have mentioned—and I think one of the main ones is the distinction between basic raw material agricultural commodities donated, and all other forms of charitable giving—there is a problem there.

Senator DASCHLE. Well, maybe you could give me some examples of where you have opposed charitable giving and incentives for charitable giving on that basis in the past and any other set of circumstances. Could you lay those out for me?

Mr. GARDNER. I do not know that this approach of giving a double deduction for particular donations has come up before. But I think the same issue would arise if we decided that say for educational charitable giving we allowed people to deduct twice as much as for other kinds of giving. It would raise the same types of problems. That is the difficulty I see.

And again, there is a question of parity, why you need to bring in the parity aspect. If you could get over the hurdle and say, all right, let's give a special deduction for agricultural commodities, I think it would be cleaner and provide a better functioning way to do that if you just said, take a double deduction for all agricultural commodities, including processed food commodities. Then you would not be favoring some commodities at the expense of others as in the example I gave you.

Senator DASCHLE. I still do not understand how you make that claim, given the fact that we know what parity is for any agricultural commodity. How would we be favoring one over the other?

Mr. GARDNER. Because of the provision that you get the minimum of the parity price or double the fair market value.

Senator DASCHLE. Right.

Mr. GARDNER. We have a lot of commodities whose parity prices are not double the market value. So for those, like the case of potatoes I gave you, you get a smaller deduction. So the example I gave was if you donate \$1,000 worth of potatoes you get a deduction of \$1350. If you donate \$1,000 worth of wheat you get a \$2,000 deduction.

So I am saying it is favoring those commodities whose market prices are not double the parity price.

Senator DASCHLE. But does that not have to do with the available supply in part?

Mr. GARDNER. No, and that is the problem.

Senator DASCHLE. It certainly does.

Mr. GARDNER. No.

Senator DASCHLE. I think that you can say the more the supply, the lower the price.

Mr. GARDNER. You can, indeed.

Senator DASCHLE. And that is exactly what we are trying to get at. We are trying to encourage people to go to those sources of food for which there is a tremendous surplus. I do not know how one does that if you do not encourage them to look at parity or market price or some economic indicator of available supply.

Mr. GARDNER. You can. You could look at surplus stocks. You could look at the existence of a price support program which suggests that is the kind of commodity that would count.

Senator DASCHLE. Why would we want to go back once again to a system that is not working to begin with in agriculture? I mean the price support system should not have anything to do with it. You have to look at the market price. You are a market-oriented administration we keep hearing.

Mr. GARDNER. Yes.

Senator DASCHLE. If that is the case, why not look at the market price or look at parity, the two gauges one has to determine value today.

Mr. GARDNER. Well, unfortunately, the problem with parity for this purpose is that it is tied to such a long ago historical period that if you look at those commodities that now are high relative to parity, they are ones that are labor intensive. For example, almost all the meat products, except I think for lamb, are now at more than 50 percent of parity so you could not take a full deduction on them.

It is those commodities which have had the greatest technical progress since 1910 to 1914—basically the grains, the bulk commodities that are produced in grain country—that have the lowest prices relative to parity. It is those productivity trends, rather than the short term year-to-year movements that give you surpluses in the sense that I think you rightly refer to. Those are the kinds of commodities that would make most sense, the ones that have a short-term surplus, not the ones that over a long period of time since 1910 to 1914 have come down the most in price.

Senator DASCHLE. I was just reminded by staff that last year during the budget debate here in the Finance Committee the administration was arguing very strongly in favor of the proposal al-

lowing the charitable contribution deduction for artworks under the alternative minimum tax.

Now that was great example of putting a preference on a specific charitable donation, artworks, which the administration supported.

Give me the reason why the administration would support that but not support a charitable preference, as you indicated here, in agricultural products.

Mr. GARDNER. I cannot respond to that. I know nothing about charitable contributions of artworks. Of course, this proposal does take food products out of the minimum tax sphere, too. I do not want to defend artwork deductions either. I do not see the reason for giving a special boost to artwork donations.

Senator DASCHLE. Well that was the administration position, as is well recorded.

From your written statement we had some concerns, and I would only raise them now. You say on page 3 that the proposal before us "would increase the role of private voluntary organizations in redistributing surplus commodities." It seems to me this speaks in favor of the proposal. Isn't it more efficient to increase food aid through groups that are already familiar with all the technical aspects and problems of getting commodities to the hungry?

Mr. GARDNER. Yes. And I do not claim that that is a reason for opposing the bill.

Senator DASCHLE. Well, I had that impression the way it is stated on page 3 in your statement. Did we misunderstand what you were saying there?

Mr. GARDNER. Yes. I do not see that as something that is critical of this program, that it increases a role of the PVO's.

Senator DASCHLE. We see that as an asset. That that would be a plus.

Mr. GARDNER. I believe that the PVO's are efficient ways to get these things done generally speaking. And, of course, PVO's play a role in the programs we have now. I have no problem with that aspect of it.

Senator DASCHLE. In your statement you indicate that the proposal would interfere with P.L. 480 and other hunger relief programs. You argue that it may cause a change in the commodity mix offered by international relief organizations from demand-driven requests towards supply-driven shipments.

From my discussions with hunger relief experts, this is already a problem. How would this proposal make it any worse? Isn't it true that providing some food is better than no food at all?

Mr. GARDNER. I agree it is already a problem. But I do think that the possibility is there that it will make that problem worse. Again, it is something that can be handled. That is one that with some further work and thought could perhaps be handled. I would not consider that again a major reason for opposition to the bill.

Senator DASCHLE. In the example you give on page 6 you show that a taxpayer is more likely to purchase commodities for which the market price is less than 50 percent of parity because a larger deduction is obtained by doing so. Since theoretically the disparity between market prices and parity prices is greatest with respect to commodities in the greatest surplus, is that not the result we want? This goes back to an earlier discussion we had.

Mr. GARDNER. Yes. Right.

That is my point. If parity was an indicator of short-term surplus, yes, that would be true. But parity because of its foundation so far ago in time, does not really indicate the short-term surplus concept you are looking for. It really indicates the extent of technical progress we have had since 1910 to 1914.

Senator DASCHLE. But if you are at a percentage of parity today—we are at about 25 percent of parity, I think, for wheat. Isn't that about where it is?

Mr. GARDNER. It is a little more than that, but it is not much more.

Senator DASCHLE. Not much more.

Mr. GARDNER. Maybe 30 percent.

Senator DASCHLE. Twenty-five to 30 percent of parity.

Mr. GARDNER. Actually, I have a table here. Let me look at it. We say 31 percent in July.

Senator DASCHLE. Thirty-one percent.

Obviously, there are a lot of factors that weigh into that. But all these factors are relative by commodities. So we are not that much higher for another commodity for which there may be or may not be a surplus. So it is the percent of parity related to another crop that I think we are trying to get at here. It is not the fact that parity alone is the determinant. It is a measure by which we judge the value of one commodity versus another commodity, based in part, you would have to admit.

I mean, if you say that there is no relationship in value or in price to available supply, then we have missed something. I mean then, you know, I do not know what it is we are trying to do with agricultural policy to begin with.

Mr. GARDNER. And I do not say that.

Senator DASCHLE. Well, what do you say? I am not sure.

Mr. GARDNER. If I am looking for a surplus concept I would say you would want to find out how much supply exceeds demand at a price that we determined to be either a market price or a fair price in legislation or something like that. That concept would lead you to say that if we have a support price set for a commodity program, and we have a surplus building up at that support price, then I can see we would call this a surplus commodity and it would make sense to use it in such a program.

If we have a commodity where the price has been fairly stable at a level of \$2.00 per unit and it falls all of a sudden to half that level, then we would say that looks like a surplus commodity. There was a surplus at the old price level. That is a case where you would see you have a surplus commodity.

So you would look for rapidly declining prices. You would look for stocks building up at given prices, that sort of thing, to find a surplus commodity. Theoretically, it is possible that a parity index could be an indicator of that sort of disparity. But in fact because of the way the parity index is constructed, based on input prices going back to 1910 to 1914, it does not serve that purpose.

Just think about what would we say surplus commodities are right now. Take the pork industry. After a couple of good years pork prices have fallen substantially this summer. You could say that in some sense this might be a good time to use some pork in

that kind of program. If you did, though, you would find that is one of the commodities that this program would make it difficult for because the price of pork or the price of hogs is still more than 50 percent of parity. So you would not get as much of a deduction by donating that commodity. The same would be true of beef or chicken, too.

Senator DASCHLE. You mentioned pork. I have to wonder how much the price of pork has gone down because we do not stand up to the Europeans and tell them they had better start accepting our products. I mean, we have lost our European market, period. We have none. And we have none in part because we are unwilling to confront the Europeans with regard to the export of pork. That has a tremendous psychological impact on the entire market. There is no question about that.

We could get into a real argument on how it is that we arrived at the support prices for all these commodities in the first place.

Mr. GARDNER. Yes, we could.

Senator DASCHLE. But you and I both know, based upon our experience over the last three farm bills, that we decide how much we have to spend, then we decide, well, we are going to divide these up based upon the constituencies for each commodity, then we take about 20 percent off of that to accommodate the administration and that somehow yields this calculated price.

We froze the price for commodities for the next 5 years, which was purely a political decision. It was a decision that came about as a result of a compromise between those of us who wanted to do a lot more and those in the administration who wanted to do a lot less.

So there is almost no relationship between that support price today and real market value or real income or value of the commodities. It is all a political decision put down on paper and ultimately passed into law.

Mr. GARDNER. Well, unfortunately, there is a lot of truth to that statement. I do think that limits the ability to use support prices as an indicator of surplus, too. I do not say that is the only indicator. But that is one that you can use. You can use the degree to which the price has fallen recently as I mentioned, but I do not think the parity price really helps you here.

Senator DASCHLE. Well, Mr. Gardner, I appreciate your coming. We could go back and forth quite a bit here. We are just beginning to look at it. I sincerely mean this, I would hope that you could come forth with some ways with which you could make this thing work rather than simply come forth and say this is just not a proposal that we can support under any circumstances, which is what I heard you say.

We will have some more hearings. We will have more opportunities to get together to talk about it. We really would like to find a way to make it work. I hope that in that effort we can get your cooperation and ultimately your support. We thank you for coming this afternoon.

Mr. GARDNER. Thank you.

Senator DASCHLE. Our second panel is comprised of the national director of the American Agricultural Movement, Mr. David Senter, and he is accompanied by John Frederick Arens, of Arens

and Alexander in Fayetteville, AR; and Howard Lyman, legislative analyst and a farmer from Great Falls, MT, on behalf of the National Farmers Union.

Gentlemen, we are pleased you could be here. We appreciate very much the kind of effort that some of you have put forth in coming up with this proposal. It is no secret that you have been the real leaders in proposing something of this kind. I applaud you for your innovation and support. I applaud you for the kind of leadership you have shown and certainly hope that this effort will be a productive one.

David, let's begin with you.

**STATEMENT OF DAVID L. SENTER, NATIONAL DIRECTOR,  
AMERICAN AGRICULTURAL MOVEMENT, WASHINGTON, DC**

Mr. SENTER. Thank you, Chairman Daschle. It is a real pleasure for me to have opportunity to appear before this subcommittee. It is a pleasure to be here on behalf of AAM members to pledge our support for S. 1826.

I guess after 12 years in this town I continue to hope that USDA for once will support a program that we consider good for rural America, farmers, to feed the hungry. But I guess I am not really surprised at their position.

We are blessed in this country with the ability to produce more food than we need. The surplus ends up with a negative effect on prices. The surplus is lower prices, bankrupt farmers and forced many thousands off the land. At the same time we have people in rural America, we have people in our cities, we have people all over the world where children are going to bed hungry because they do not have anything to eat. We believe that S. 1826 makes the connection between the surplus and the hungry.

We also believe it is a private sector initiative that is not going to require huge government agency or bureaucracy to administer the program. And as was pointed out by USDA part of the, or we hope most of the drop in revenue will be offset by reductions in farm spending and other functions of government.

I would like to point out that the administration and OMB, they say that the export enhancement program is no cost. They score it as zero. They say when you take bushels and pounds and you put it into the export market it does not go under loan. There is no subsidies paid on it. Government does not have to storage it, manage it or maintain it.

This program works exactly the same way. People will be purchasing food, giving it to a charity and someone will be fed and so it is out of the system. So we believe that there is no funding cap on export subsidies in this new agricultural appropriation bill. We can spend billions for export subsidies to use surplus commodities to dump into the world market but yet they oppose taking our surplus and giving taxpayers the benefits in order to feed hungry people. It is kind of hard to understand.

As far as the parity index is concerned, the parity index will assure that the dollars flow to the commodity that is the most in surplus to the lowest priced commodity. That is what costs the government the most money. That is where farmers are under the



most economic stress and that is the products that should be bought.

He mentioned a 200-percent deduction across the board. The parity index merely caps the deduction. Where that if you have a drought corn price is \$5 a bushel. Under his scenario the taxpayers could keep buying corn even though it was in short supply and get a \$10 a bushel incentive. The parity price would cap it below \$6 a bushel so people would go purchase wheat or rice or another commodity that is in surplus.

So the parity price merely caps the deduction. The 200 percent provides the maximum so as to protect the Treasury and direct the dollars to the most need. So we differ on his opinion of parity and believe it is a safeguard and a good measure to use.

Farmers produce food to feed people not sit in warehouses and depress prices. This will allow us to go about what we do best, producing food; and it will provide a lot of new people in the market place buying what we produce and giving it to someone to feed them instead of letting surplus food wrought in warehouses, expensive for taxpayers.

Today we are less than 2 percent of the population in rural America, we believe that this program will allow the other 98 percent of Americans to participate with us in helping solve the hunger problems in the United States and around the world, and solve part of our farm problems by helping us get rid of the surplus.

Now with your permission, Mr. Chairman, I would like to introduce John Arens who is general counsel for AAM. He is from a law firm in Fayetteville, AK. John came up with this concept some years ago and brought it to our attention. Now I would like for Mr. Arens to make some comments.

[The prepared statement of Mr. Senter appears in the appendix.]  
Senator DASCHLE. Mr. Arens?

**STATEMENT OF JOHN FREDERICK ARENS, ARENS & ALEXANDER,  
FAYETTEVILLE, AR**

Mr. ARENS. Senator, let me just take a moment and tell you how the idea came to me. Our firm has the dubious distinction of representing only farmers and ranchers from Georgia to California and everywhere in between.

During the 1980's you well know what that has meant for us. We are there with the tears and the moms thinking about suicide and the dads lying down at the end of their turn rows and crying and fighting with bankers. We cannot pay our bills.

About 5 years ago I was in the Delta of Arkansas and I was talking with a family of rice growers. The mom was sitting there. Her name is Francis Hopman. She sat there and she cried. In fact, she asked her son to leave the room. He was about 10 years old at the time. She cried and she said, John, I do not know what is going on. We have raised 2,000 acres of rice. We are good farmers. And they tell us we grow too much and now we have to go out of business. And I just heard on TV where 40,000 children starve every single day because they do not have any food. What is the answer? Why?

I admit to you, Senator, I thought, what does that have to do with a lawyer, what does that have to do with what I do. I left that night and I went back to my room and I thought about it. I awakened in the middle of the night with an idea.

It was nearly a complete idea. It came to me in legislative terms that I did not understand. I can almost parrot it for you. That is, whoever donates an agricultural raw product which is actually delivered during the tax year may value his gift at parity. I admit I did not even know what the impact was.

But as I got to thinking about this, I thought now that would solve it. If we want houses built we give a tax incentive to build houses. If we want oil and gas wells drilled we give a tax incentive to do that. If we want art donated we give a tax incentive to do that. Well, why cannot we take this excess that the Hopmans grow and give people an incentive to come in and buy it and give it to the hungry?

Now they would not be burdened by their own successes with lower prices that they cannot pay their bankers. Maybe we would not be facing the most significant economic catastrophe that we have faced since the 1930's. Maybe we would not be on the verge of a depression because we would generate enough new wealth that the farmers could pay their bills and the bankers could stay in business and our Nation could thrive.

Then I began to, during my research and my study and visiting with people that knew more than I, began to compare this with Biblical admonitions. A little different than most of us lawyers do. I remember Larry Jones' wife, Frances, said, you know, I am concerned with that woe unto ye lawyers that burden the people down with heavy loads and lift not one finger.

But in this process it became apparent that from all perspectives, if we took our excesses and would give it to feed the hungry we would solve our problems. So then I began to work with this concept and as David said, shared it with American agriculture.

We need, Senator, I think as you have acknowledged, and as you well know, but maybe not everyone does, we need these excesses off of our backs so that we can maintain readiness in this country, so that we can produce the food when we need it. If we construct, if we put all of our acreage out of production, so that we just produce enough to feed our people, so that we get a fair price, that will not work in years when we have shortages and years of drought; and we could face hunger in America again as we did in the 1930's.

We need the readiness. We need to produce an excess. Now the question is, what do we do with that. Do we let it rot or do we give the private sector an incentive to come in and buy our grain, buy our food, and give it to the hungry?

When I presented this idea to Larry Jones with Feed the Children, I could see an excitement. He is here today. Hopefully he shares that same excitement with you, Senator. But it was like, if we had the food—in fact, you may recall several years ago he had a problem. He could not get donations of food because we the farmers could not donate anymore to him.

If we had price, the part that the representative of the Agriculture Department left out of his analysis, if we had price we would pay taxes. We paid them in 1973 when we had parity. We have not

paid taxes in 10 years on the whole in American agriculture because we have not made any profits. Give us 30 percent more for our wheat and we will pay our taxes.

I am excited. You probably saw a smile on my face because to hear an idea voiced that seems so complete and so whole I thank you for your attention and your support, Senator. That is the end of my comment.

Senator DASCHLE. Thank you, Mr. Arens.  
Howard?

**STATEMENT OF HOWARD F. LYMAN, LEGISLATIVE ANALYST,  
GREAT FALLS, MT, ON BEHALF OF NATIONAL FARMERS UNION**

Mr. LYMAN. Thank you, Senator. My name is Howard Lyman. I am a representative of National Farmers Union and the 250,000 family farmers that are members. I would like to insert my statement into the record and speak to the issue.

Senator DASCHLE. Without objection.

[The prepared statement of Mr. Lyman appears in the appendix.]

Mr. LYMAN. I am a farmer and the one thing that has always bothered me as a farmer was trying to reconcile low prices, surplus commodities and hungry people. I could never bring my thinking together that I could understand how we could have surpluses and low prices yet we could not feed hungry people around the world.

Farmers want to feed hungry people. They even want to feed their own families. It was interesting to see the gentleman from the Department this afternoon talking about a 30 cent a bushel out of this, but there was nothing said about a \$600 million increase in the income out in rural America that would be generated by this program, just as it did not exist.

Maybe what we ought to be talking about is tying this program to the parity prices of bureaucrats salaries and maybe we would find somebody down at the Department that could spend a little time studying it.

I have attached to my statement this morning a study that came out of Oregon on government policies and income. It is a very interesting study. It basically says that three farmers using exactly the same technology—one in the United States, one in Canada and one in Australia—that the Australian farmer has a 20-percent advantage on income. The Canadian farmer has a 16 percent advantage on income and we are trying to say that we are working off of something where we have all things that are equal.

We are involved in trade legislation right now and we are talking about an aggregate measure of subsidy. The fact of it is, the field is not level. Government policies make a tremendous difference in how the farmers have to adjust. This study was originally done between two farms, one in the United States and one in Canada, right across the border from each other. They had the same tractors, the same seed, the same fertilizers, two different government policies.

The Canadian farmer in the study made a quarter of a million dollars, the American farmer went broke. When is it that we are going to come to the opinion that it is not a level playing field? Maybe parity to the Department down there is something that was

long ago and is not relevant. But I can tell you on my farm in Great Falls, MT, in 1953 I sold wheat for \$3.05 a bushel. I bought a D-6 Caterpillar tractor for \$10,500.

In this year wheat on that same farm would bring less than \$2.50 a bushel. That tractor sold for over a quarter of a million dollars. If these numbers are out of sync maybe this is why we are ending up with fewer and fewer farmers. Common sense is no longer in vogue. If we cannot take the number one thing that we have in America, which is the ability to produce food and feed the hungry people of the world, maybe we are in the wrong game at the wrong time.

We support this legislation. We think that it does what is long overdue, putting the emphasis on the lowest priced commodity, feeding hungry people with the greatest ability in the world that we have. We support this legislation and we will work to see it becomes law.

Thank you.

Senator DASCHLE. Thank you, Howard.

Let me ask if you can respond to some of the claims made by Mr. Gardner. One was that this would spur competition, perhaps unfair competition, with other charities. Have you thought about that and, if you have, what would be your response?

Mr. LYMAN. Mr. Chairman, if we did no more than to get some of the people out there that it would be of an advantage for them to give, if only 1 percent out there took advantage of that, it would be astronomical in what we could do around the world of feeding hungry people.

For us to say that people are going to turn their back, the only reason they give is because of a tax advantage, that is not true. People give because they believe they have a responsibility to focus on the ability of what this could do, not only for hungry people, but what we could do for hungry rural America I think would be tremendous.

Senator DASCHLE. David?

Mr. SENTER. Mr. Chairman, I believe that there is already competition between the charities. They compete for dollars. They compete for goods in order to carry out whatever their particular function is. I honestly believe that if there is competition to receive food donations that they in turn will use to feed hungry people that that will be healthy for the system.

Our whole American system is built on farms competing with one another. Businesses compete in the market place and so competition is not a bad thing when you look at it of keeping the system healthy.

Secondly, on competition, he said that it might hurt P.L. 480. Well under P.L. 480 we take and we export wheat and feed grains, food grains. They go into foreign countries that have a need. Then he said that under this plan people might go buy wheat and give away to feed hungry people. It is exactly what is going on now.

The difference is that we take tax dollars outright. A government agency accumulates the grain, maintains it, stores it, ships it, and tries to give it away to someone to feed the hungry. This plan will take those same commodities but the private sector will take and process those products. They are not going to ship raw wheat

overseas. Somebody is going to have a job milling that wheat into flour. The flour is going to be put in bags and the flour is going to be shipped to feed somebody that is hungry or corn meal or meat or soybean products or whatever is purchased.

So the processors will be involved in processing these raw products. But I think that this program does exactly what happens already in what I consider not to be nearly as efficient when it is carried out by government.

Senator DASCHLE. What about one of the other claims Mr. Gardner made, which was that we are really using an unfair criterion here, that is, parity. Parity is not a relevant determinant in assessing surpluses or perhaps even assessing the incentive for providing contributions or incentives for contributions with one commodity over another. He mentioned potatoes as an example.

How would you respond to that?

Mr. LYMAN. Well I think that the example he gave I would stand by it. I think that what he said was exactly right. The conclusion he drew was exactly wrong. If potatoes are at over 50 percent of parity they are in a much better comparative position than wheat. We should not buy potatoes. Those producers are doing better on the long haul than the people in wheat.

The thing that strikes me as wrong is how in the world that we can have a target price and the target price of a crop like wheat is set up there and we say that is the cost of production and we should try to get the producer to that price. When we come along with a program here that says let's try and move it towards that target price all of a sudden the administration comes down and says, boy, that is all wrong.

The reason that is wrong with it is that they never looked at the program. It was not their idea. They did not even stay around to find out what was being said about it, folded up their tent and went home because their mind was already made up.

Mr. SENTER. Mr. Chairman, on the parity index USDA always tries to paint the parity index that is outdated. It is a formula and that formula has cost of production, interest, energy costs, labor costs, land, the size of the crop. In other words, all of these things are in that formula and each month it adjusts with what happens in the rest of the economy and what the input costs are for farmers.

But the bottom line is, it is a fair yardstick because that formula is applied equally among all of the commodities. So you can argue that 100 percent parity price is too high as many would argue, but the bottom line is that yardstick is level with all the commodities and it judges that price in an equitable way.

So once again I say that yardstick caps the program. You cannot have a deduction larger than 100 percent parity. So it is a safeguard that would prevent taxpayers from filing for refunds if, in fact, you had a shortage and a commodity and some other method was used. This will mean that the taxpayers will be purchasing commodities that are in surplus, that has the lowest price, which ends up the best deal because you get more food for less money. It helps the farmers price wise and it means the government spends a lot less because those commodities are where the costs come out of USDA.

Mr. LYMAN. Senator, just one comment on that as far as the parity price. If we use it from the farmer's income perspective it tends to track the parity price, the actual price, because the closer it gets to parity the less the incentive to buy the commodity. So as the price in the cash market goes up it hits a point that we expect the model would indicate it will now track.

That is what the farmers are asking for. Give us a fair price that we can depend on. As I see the main magic to using the parity is, is that it will now track, the actual price will now track it year in and year out if we are donating our excesses. It will hit its optimal.

Senator DASCHLE. Do you think there is any chance that this system could create surplus foodstuffs? I mean, do just the opposite? Because you have a tax incentive to actually purchase would you then be creating an incentive to supply as well as to demand?

Mr. SENTER. Mr. Chairman, maybe Larry Jones and Feed the Children and some of those groups can address this issue better. A charity would have to be willing to accept the commodity before it could be donated. And for a taxpayer they have to donate it to a charity. A charity would have to accept it and then you get your tax incentive. If there was an oversupply well then the charities would not be willing to accept more than what they could handle. So the taxpayer would not be eligible for any kind of an incentive in that way.

So I think it will balance itself out and you will see the products match what the demand is through these charities of whatever the most need is is what we are going to see purchased and moving into that system.

Senator DASCHLE. Maybe one of you could, and maybe Mr. Arens would be the best one to do this, just for the record, could you just go through the mechanics? Somebody decides they are going to participate. Where do they go to purchase the product? How do they get it from where it is now being stored to the organization which has agreed to accept it? How will it be processed, transported and ultimately how would they then acquire the tax benefits having gone through those steps?

First the steps. I think for the record it would be helpful for us to establish that.

Mr. ARENS. I think I can. There are two sources, two users of it. One is the grower and one is I will call the donor. The grower could be a donor also. If he is a grower he grows the crop, he contacts a charity, he says I have "X" number of bushels, I would like to give them to the charity.

Now he will do that we envision in the out years to shelter this 30 cents additional that he is making. So he has now an incentive to give part of his crop.

Now I will pick back up once it gets into the charity's hand. The donor he said—or let's call him a tax or the investor or however we classify them. I have always talked to you about them as a donor. The donor says I would like to donate to help the hungry and his tax analyst says this could be beneficial to you.

So they contact the charity and they say, we are interested in buying wheat and supplying it to you. Can you accept it? Will you accept it so that I get this chit that says I donated it to you and I can use that in my taxes.

Let's assume that one of the charities says, yes, we are interested in 2,000 of wheat. So now the buyer arranges either on farm or more likely with the elevator to actually buy. The transportation of that, we are used to that. Because right now we give to charities and they arrange for the transportation or we donate the transportation.

More likely than not it will be part of the gift. In other words, Mr. Farmer if you are eager to give me 2,000 you are going to have to bring it to where I use it. So now I have to spend part of my money to actually transport it and I get a dollar-in, dollar-out tax deduction for that.

Once it gets to the charity, now the charity has got a problem, it must process it. So what I understand the mechanism will be the charity will arrange with a processor to trade in raw material and trade out finished product. That is done all the time. In fact, as I understand it, this is what the charities do. Right now if they get in kind wheat it is useless to them, they have to get flour or they have to get pancake batter, et cetera.

So we envision that the charity will either cause it to be processed, packaged and moved or he will trade it for a packaged product that he can move to a designated recipient that he is determined can consume this product.

As far as the tax writeoff, he will have a receipt from the charity with the price that he paid. He will have to establish, I bought that wheat at \$2.10 on which day. Now it is very easy in the mechanism to determine what the parity price is at that day.

Hopefully, the mechanism will require that the charity receiving it certifies that it will be used for the purposes that the charity is established for and is actually going to get bed.

So now this is what he takes to his tax analyst and says here is the wheat that I donated, here is the parity price. Truthfully, the preparer could almost determine what the parity price was retrospectively at any time because these are published numbers. And from that point he takes his deduction. That really flows through it.

There will be the development of certain mechanisms to help facilitate this we envision. But that will replace other systems that are now, let's P.L. 480, other systems that are now in place they will be replaced in the private sector. But we are looking to a brand new market of buyers, people that say hey I would be interested in buying that wheat because I can get a tax writeoff.

So that is how I see it from start to finish.

Senator DASCHLE. The only thing that I would add is that we have a \$10,000 cap on an annual basis in what they can actually donate.

Mr. AREN. Yes.

Senator DASCHLE. David?

Mr. SENTER. Mr. Chairman, I believe that there are ways in this kind of a program where say a State wheat growers organization or a State grain group could get together and actually publish a catalog of those farmers or elevators that want to participate, send it out to the accounting firms and lawyers and such in the cities, so that they actually for their members if somebody in say Rapid City wants to buy some wheat, well if there was a catalog that the ac-

countant had, they could call this number of the State wheat growers or whatever and then they could tell them who they need to contact to make the transactions.

So I think that there will be some very unique programs to come together to facilitate the buyer and the seller to come together as far as those raw commodities are concerned.

Mr. ARENS. Senator, one other point on that.

Senator DASCHLE. Yes.

Mr. ARENS. There is an aspect of the legislation that you have introduced that attempts to give the Department of Agriculture some way to control whether or not we create excesses, whether or not everyone just backs out of government programs and begins to use practices that are unsound, does not rotate, does not do all of the shrewd things that the Department of Agriculture guides us in each year. That is that it has to be grown under conditions that are approved by them.

They are really in my vision the ones that will regulate how the crops are grown to make sure we do not shoot ourselves in the foot with this great idea. We do not want to have now everyone going out in their backyard and using any type of chemical and any type of process to flood this market. So purposely in the bill is a provision that if the Department of Agriculture would take your lead and come back and say here is how we can do it, that part is specifically designed as I see it, as I have read your version, was specifically designed to say Department of Agriculture participate with us. We do not want this to be something that hurts us. We want it to be good.

So that is why we have said that you can control which crops participate in this program and under what conditions they are grown.

Mr. LYMAN. Mr. Chairman, the interesting thing is if this program was in place and it went down the line, wouldn't it be interesting for the charitable organizations to come to you and say, it works so well we do not need anymore. Wouldn't it be nice if we could feed the hungry people of the world?

If that happened, I think all of the fail safe mechanisms are in this that we would not end up with a surplus in the hands of PVO's and we would be at least no worse off than where we are today, but we would have all the hungry people in the world that the PVO's if wanted to could be fed. It would be a nice situation to be in.

Senator DASCHLE. Well and I always think the administrations, both this one and the past one, failed to appreciate the real cost of hunger. What is the cost of a hungry child who ultimately becomes a sick child? What is the cost of someone who is hungry and sick and ultimately delinquent? You know, what assessment in cost is there in society to that individual?

We do not seem to budget appropriately in that regard. We calculate the immediate cost, not the deferred cost; and the deferred cost of not providing care for hungry and sick children probably cannot even be estimated. But it is phenomenal. If we are doing one thing by this bill in providing another opportunity for people to become involved it seems to me a pretty worthy goal and one that certainly deserves our support.



Well, again, let me thank you for your testimony, for your work on this legislation, and certainly for the leadership you have shown. I really appreciate it.

Our final panel is comprised of Larry Jones, the president of Feed the Children, of Oklahoma City, OK; Robert J. Fersh, executive director of the Food Research and Action Center; and Kathleen Kersey, the executive director of the Food Service Center in Sioux Falls. If those three witnesses can come forth, I will take their testimony at this time.

Needless to say we are very pleased to have the three of you here. You are recognized experts in this area and have been involved in hunger programs for many, many years, very successfully I might add.

I think because she is from South Dakota I will call on Kathleen Kersey to be our first witness on this panel.

**STATEMENT OF KATHLEEN KERSEY, EXECUTIVE DIRECTOR,  
FOOD SERVICE CENTER, INC., SIOUX FALLS, SD**

Ms. KERSEY. Thank you. I would like to start by sharing a couple of stories. Our food bank serves about 30 agencies in Sioux Falls and another 60 some agencies throughout much of South Dakota. Ten of those are pantries that are on eight of the nine Indian reservations in South Dakota. So we have a real opportunity to see rural hunger, urban hunger, and hunger in the unique situation of the reservations.

This story took place in Sioux Falls. I was speaking at Ministerial Association a couple of weeks ago and one of the pastors who is on the board of directors of a day care program that has a sliding fee scale for low income families was helping with a snack in the afternoon.

There was a child who was being cared for just in the afternoons. He was asking the little boy what he had to eat that day. The child was about four and said that he had had a squash sandwich for breakfast. That was all he had that day until his snack. This is in the heart of America where we do not think these things happen.

I would also like to share with you from our last news letter. A woman came into our Food Service Center and wanted to volunteer some hours for us. She said, "I really wanted to pay you back for all the good you do people who desperately need food."

She was talking about an outreach program we have in which we get surplus breads and pastries from some of the grocery stores. When we do not get them out through our pantry or through the other agencies that we serve, we do not want it to go to waste so we take it to low-income apartments for elderly, handicapped and families.

This woman said, "Some people do not realize how hard it is for some folks to get food. My friends and neighbors in the low income apartments sometimes do not have anything to eat at the end of the month before their Social Security checks come except for the bread that comes from the Food Service Center."

So I just wanted to let you know through those stories that there is a need. I hope I have documented that in the written testimony that I have turned in to you, too. We are just talking about South

Dakota, a small State. But what happens in South Dakota is a mirror of what is happening throughout our country. More and more agencies that serve low-income people, more and more food shelf programs, are seeing tremendous increases of people in need.

Now, there is a whole other issue: What is the cause of hunger? That is something that we as a nation have to address also. You have admitted that the program you have proposed here in S. 1826 is in a sense a bandaid. It is not trying to get at the root of hunger. But we cannot let people go hungry while we look for that root cause. So those bandaids, so called, that we have—whatever they are, food shelf programs—are extremely important. We cannot let children and adults go hungry while we look to address those larger causes.

I was really excited when I got the copy of this bill because we had been struggling with the Meat Processors Association in South Dakota. They have a proposal to have downed animals, donated by farmers and ranchers, processed and then donated to the food bank. That was great except, of course, there was no way they could get a tax relief or tax deduction if they raised those animals themselves. Unless they purchase them, there was no incentive at all for them.

I thought that somehow this bill would really be a help to us in finding that particular resource of meat as well as other proteins, including the wheat which not only can be made into flour but also into pastas. That protein is so very important for children. It is also something we do not get donated very often. So I was particularly interested in that.

Second Harvest, the National Food Bank Network of which we are an affiliate, has recently started a program called value-added processing with Stokely's and Pillsbury just for the processing of vegetable products. So it is an idea whose time has come. I am really excited about the possibilities of this bill.

Senator DASCHLE. Thank you very much, Kathleen.

[The prepared statement of Ms. Kersey appears in the appendix.]

Senator DASCHLE. We will call on Robert Fersh to be the next witness.

#### STATEMENT OF ROBERT J. FERSH, EXECUTIVE DIRECTOR, FOOD RESEARCH AND ACTION CENTER, WASHINGTON, DC

Mr. FERSH. Thank you very much, Mr. Chairman. I would ask that my full statement go on the record and I will summarize.

Senator DASCHLE. Without objection.

[The prepared statement of Mr. Fersh appears in the appendix.]

Mr. FERSH. First, thank you very much for the invitation to be here. I think it is entirely appropriate that on World Food Day we focus on the issue of taking care of hungry people both here in the United States and abroad. I would like to pay tribute to you, Mr. Chairman, for your long-time leadership both here and in the House on these issues and the kinds of sensitivity you have been showing for many years and again today to the underlying issue of hunger amongst human beings throughout the globe.

First let me just frame what I am going to try to do very briefly this afternoon. I have to issue a disclaimer. I am not an expert on

the Tax Code, nor on agricultural economics. We do not pretend to know a lot about that. What we are here to say is that we do favor very much any efforts that would remove disincentives in the Tax Code to donate food, that we applaud the efforts to try to make sure that food gets moved out to needy people rather than sit in warehouses and waste, and we come to say perhaps above all to confirm what Kathy has already said and I am sure Larry will say, that there is a deep and crying need out there both amongst Americans and throughout the world.

Some of you may be aware that the Food Research and Action Center last March released a study of childhood hunger in the United States, the so-called CCHIP Survey (Community Childhood Hunger Identification Project). It was a 3-year, half a million dollar study designed by eminent academics.

The bottom line of our study was that we found that about 5 million children under the age of twelve go hungry month-to-month in this country. It does not mean every day of every month, but at least some days every month.

We found that these children, as you pointed out, experienced two to three times more health problems, unwanted weight loss, ear infections, colds and so on, two to three times more health problems than other low income non-hungry children. And we found there was a close connection between these health problems and school absenteeism.

That in a nutshell are our most dramatic findings. And as you pointed out, that does not even get into the issue of the long-term damages done to kids' health, their development, their ability to be productive students and citizens.

Our findings are not really all that surprising in light of the official government data now available on the extent of poverty in this country. Hunger is a function of poverty. About 2 weeks ago some very disturbing new poverty statistics were issued by the Census Bureau.

They found that in 1990, at a time when the current recession was really just beginning there was a significant increase in poverty in this country, over 5 percent increase in poverty. They found that one in five American children lives in poverty. For children under the age of 6 the extent of poverty is 25 percent; and when you look at minority children—Hispanic and Black children—the poverty rates approach 40 and 50 percent.

That is the context we deal with in this country. Of course, we know that compared with the conditions in many countries around the world we are very fortunate that at least our people get something to eat virtually every day. But there is a tremendous need.

The question is: How do we match up our deep resources with the need out there? That is where I want to offer a couple of words that I hope will be guidance and cautions and some sense of where our priorities lie in terms of taking care of the urgent needs, the short-term needs.

We think this bill has a very worthy purpose and from what I have heard today and understand today really could make a remarkable difference in making sure that food is available to low-income Americans and people around the country.

However, I do want to point out that from our perspective, in addition to working on this, we think perhaps the most important step the Finance Committee can take is to make sure that the Mickey Leland Childhood Hunger Relief Act gets funded. And you, Mr. Chairman, are a co-sponsor of that. You have been a long time supporter and we deeply appreciate your sensitivity and support for that.

Certainly it is our hope that we can do both. But at a time when under our current budget rules there may be a competition for funding, we simply want to make sure that the point is made, that in addition to the role of the private charities—second Harvest has done a remarkable job, the food banks around the country, I have had the honor of serving on the Board of Second Harvest until recently for several years and many private charities are doing a wonderful job filling the gaps—but we have a problem in that the underlying safety net is not where it ought to be.

There is nothing that can be done that is more important than enacting the Mickey Leland Act and funding it. It is the most important anti-hunger bill in this country in the past 15 years. It is being marked up at this very moment by the full House Agriculture Committee on the House side. It targets benefits. Over 90 percent of its benefits go to low-income families with children, particularly those with very high shelter costs.

I will say that in July, Chairman Rostenkowski took to the House floor to announce his support for the bill, his determination to find funding for it; and it is certainly my hope that in conjunction with the sensitivity you are showing today to the hunger issue through this bill that you also will provide leadership to make sure that the Leland Act, which takes care of the public sector response, goes hand-in-hand with these efforts that you are promoting today.

Thank you very much.

Senator DASCHLE. That is well said, and I could not agree more. I think that that legislation ought to have a very high priority to the degree that we can work on both of them, in fact, blend them together. We ought to do that.

I think it is very much in keeping with the spirit of the Mickey Leeland bill. But your point is well taken. I am delighted to hear of the progress that is being made on the bill there, and I have every reason to believe that we can make similar progress here.

Mr. FERSH. That would be wonderful.

Senator DASCHLE. You had mentioned a number of statistics, and I had meant to do this earlier. But I think it is so important for the record to indicate why it is we are here in the first place. I could have just as many statistics having to do with agriculture, but, in terms of need, a survey of 30 major cities last year, the last year for which statistics are available, there was a 22-percent increase in demand for emergency food assistance and a 24-percent increase in demand for emergency shelter.

Three out of four people today requesting food assistance in the United States are either children or their parents; 37 percent of homeless people report eating one meal per day or less and 36 percent report going at least 1 day per week without any nourishment whatsoever. Children account for 24 percent of the homeless population; 12.6 million children in the United States are poor. A family

of three needs \$832 per month for subsistence. The number of children in very poor homes, which is half the poverty rate by definition, grew from 3.3 million in 1979 to 4.8 million in 1990. The numbers are going up dramatically—32 percent of female-headed households are poor, and the infant mortality rate, which was the point I was making on health, was 10 deaths per 1,000 live births in 1988, which ranks the United States 21st among industrialized nations.

I read this only because I think it is so critical that people understand that, if we cannot find more innovative approaches to deal with this set of problems, I really worry about the direction this country is going to take and ultimately the position we are going to be in 10 years hence.

But no one knows that better than our final witness. He is incredible in his activity, his involvement, the kind of leadership he has shown both domestically and internationally. When our farmers were in trouble in South Dakota several years ago, it was Larry Jones who came to their aid and has on many occasions in various ways. So it is with a great deal of pleasure and gratitude that I welcome him to the committee and encourage his testimony at this time.

#### STATEMENT OF LARRY JONES, PRESIDENT, FEED THE CHILDREN, OKLAHOMA CITY, OK

Mr. JONES. Thank you, Mr. Chairman. I have my statement to enter into the record and I have changed what I want to say because the first witness was an agriculture and economic expert, and since I am not I am on the other end of the spectrum. So I am going to close out because if I am not mistaken hungry children were not mentioned one time. That is why I am here.

I will briefly tell you why I am here. In 1979 I went to Haiti. When I got through speaking one even and I went back to the little motel and a little boy came up to me and he said, "Do you have a nickel?" It is 9:00 at night. I said, "Yes, sir. What do you want it for?" He said, "I have not had anything to eat all day."

I gave him the nickel and I said, "What are you going to do with it?" He said, "You see that store over there, I am going to buy a roll." I said, "Okay." But he did not leave. He said, "Do you have three pennies?" I laughed and said, "Yes. What do you want them for?" He said, "They will cut that bread in half and put butter on each side of it." So I gave him three pennies.

I said, "How much is a coke?" He said, "Twelve cents." I gave him 20 cents altogether and he went to the store. I went in the motel room. I was a graduate student in Enit, OK. At one time it had one-thirtieth of the world's wheat stored there. At the moment that I gave that little boy 20 cents America had 35 million metric tons of surplus wheat and an hour and a half from the United States a child went all day without eating.

I came back and told the story on television that I just told you. Farmers gave me actual wheat. I did not plan to start Feed the Children. It started that day. We began taking food all over the world, but in 1986 our telephone began to ring here in America. I am ashamed to say I have been to all 48 States numerous times

taking food to food banks, Indian reservations, food pantries, feeding centers, to churches, helping feed America's hunger.

Our good friend here, Rob, he gave you statistics. We have a hunger problem in America. But I want to give you some encouragement today. I came to Washington in 1983 and said, will you help me feed hungry children. Nobody would listen to me until finally I met a man by the name of John Body who headed up the Nutrition Department. Now you must accept this. He had been formerly with Senator Boren. But when administrations changed he changed. Consequently you had a Democrat dressed up like a Republican.

He was a willing ear and after 5 years of telling him my idea and my plan prior to the Hunger Relief Act of 1988, I did a pilot project because the same thing that was said in the first testimony was the same thing said to me. If we give you this surplus grain how can we be sure that you are going to feed the hungry with it. How can we be positive?

Now they were surprised number one that I came to the table with money for transportation and I would pay for the processing of the wheat and the corn. So they did a pilot project. Which by the way, this July, I signed the fourth year of going into this project. I received 100,000 pounds of corn and wheat each month. I have it processed in Kansas. I bring it to Oklahoma. I give it to the Department of Human Services. It is distributed to all 77 counties in the State of Oklahoma.

Yesterday I received a citation from Governor Walters and the Department of Human Services for the contribution that Feed the Children now makes to feeding the hungry in the State of Oklahoma. We are not going to disrupt anything with any program that the Hunger Relief Act brings forward. The children I feed will not eat unless I feed them.

I just got back from Russia Sunday night. The USDA had been there for 10 days. The final report was things do not look as bad for this winter as they previously did. But I do not listen to reports and I had the Moscow Police Department take me down to the private market and there I met grandmothers selling their last belongings to buy something to eat.

I want to close my statement with this. In 1914 the Byelorussian poet, Maksim Bahdanovich said this:

“So much wealth and beauty everywhere  
While people are starving and weary  
Of poverty, of ignorance  
Because of boundaries, because of barriers.”

Now we can break down those barriers with compassion and mount an aggressive campaign to eliminate hunger throughout the world. Now I know that in the legislative process there will be those who say, and we have already heard it today, on the one hand it will do this, but on the other hand—

That reminds me of something that President Truman once said after receiving some on the one hand/on the other hand advice from his economic advisors. Mr. Truman remarked, “Would someone please send me a one-armed economist.” [Laughter.]

Today we need a one-armed samaritan with one purpose, ending hunger in America and eventually around the world.

Thank you.

[The prepared statement of Mr. Jones appears in the appendix.]

Senator DASCHLE. Thank you very much, Larry. As is always the case, your eloquence and your passion are so apparent.

What is the impediment today? We have surpluses as you have indicated, in virtually every commodity. We have poverty, sometimes minutes away from where the surpluses are located. What today keeps those surpluses from being more appropriately distributed than they are?

Ms. KERSEY. Paperwork.

Senator DASCHLE. What is it, Kathy?

Ms. KERSEY. Paperwork.

The hoops you have to jump through. We distribute commodities through the Emergency Food Assistance Program in our pantry. You know, you just go through so much. You have to have every single person sign their name, their address. You have to keep these records on hand. You have to send in your orders. You have to arrange the transportation to get the commodities.

It is made very difficult. It is made very difficult to get those things and people are—I mean, that is really something. You have to write down your name to get 5 pounds of cheese, put yourself on public record.

Mr. JONES. I think it needs to go on public record that I receive numerous calls from Congressmen, and I have been to many Districts, going into their Districts, taking food to feed their hungry people. I do not think that America realizes the magnitude of his statistics. I am not overemphasizing that.

I do not think America realizes the actual problem that we have and what it is actually causing to happen to our children. I really do not believe that. I am just being honest.

Ms. KERSEY. And when you read the newspapers, and we are constantly being told by the experts that things are getting better, that the average income is going up, et cetera, et cetera, I cannot believe I live in the same world. I cannot believe it.

Senator DASCHLE. You do not see any signs of improvement; is that what you are saying?

Ms. KERSEY. I do not see signs of improvement. Twenty percent of the households we serve in our pantry last year—and it is up this year—had at least one person full-time employed, and they still had to come into a pantry to get help.

Senator DASCHLE. Some concern was expressed by our first witness from the Department of Agriculture that we may be unduly and adversely affecting current domestic food programs, and we have to be concerned about that. Do you see any indication that that may be the case?

Mr. FERSH. I do not understand the line of argument to be honest. I mean the need is tremendous. Food banks often do not have the commodities they need, the variety they need, the nutritious qualities they need. I would love to hear what the argument is in greater detail, but I do not understand. If you are creating a greater supply generally it seems to me all the charities are better off.

Senator DASCHLE. Let me ask you, we have in the bill a stipulation that these commodities be directed to areas of famine or disas-

ter, or to other economically depressed areas. Does that in any way encumber what you consider to be your mission, your role, by putting that criteria right into the legislation?

I mean, could you have areas of need that are not "economically depressed?" Sioux Falls may be viewed as an area which may not be depressed but which certainly experiences hunger and malnutrition in isolated pockets of the community.

Ms. KERSEY. That is certainly true. For the first time in years, about 8 weeks ago, we had to put out a public plea saying "Our shelves are empty. Please help us." We cannot continue to do that. We have to have some ongoing stable resources and we are valiantly searching for them, but so is everybody else.

Mr. FERSH. Mr. Chairman, I have not had a chance to study that aspect of the bill. From my experience, working both for the Congress and for the U.S. Department of Agriculture for the Food and Nutrition Service, I would guess that would become a bureaucrats and lawyers nightmare. How do you define that?

I would say further that our studies which occurred all across the country in Connecticut, the richest State, in Alabama and California, there are pockets of poverty and hunger everywhere. Our findings were really surprisingly similar. So if you put those kinds of limitations on it I think that you will unnecessarily hamper the distribution networks, many of which cannot be refined that closely.

If, for instance, some of this went through the National Second Harvest Network I am confident that they would want to go through their existing mechanisms which have been designed to allocate resources efficiently where the needs are greatest.

Mr. JONES. I think that one thing I would like to address since I am a charity, that he said there would be competition. I do not think he understands the comradery that charities have. A large charity called me during the Armenian earthquake and said we have been donated a plane, would you fill it for us, and I filled it.

Last week World Airways gave me a plane, Connoco Oil donated flight fuel. We filled it and sent it to Moscow along with two other charities who were working in the same project. So if I receive too much, you had better believe I will share it. I guarantee you, if this lady receives too much food she will call another food bank and they will get it.

Excuse me, he is not in left field; he is out of the ball park.

Senator DASCHLE. Let me ask you, you mentioned a concern that I raised earlier about the processing. Larry, you seem to think you have a system for processing and transportation that apparently works pretty well. But are you concerned at all with the processing or with the transportation of commodities?

Mr. JONES. Nothing would make me happier than for you to tell me you are going to give me, you know, 200,000 bushels of wheat that I had to pick up in South Dakota. I have never had any commodity. I just received 80 semi truckloads, which was the largest single donation—and she knows how much wheat this is, wheat flour—I received 80 semi-truckloads from ADM this summer. Did not have the warehouse space, went and rented more warehouse space. Then I just get on television and I say folks, this is what I have and I want you to help me move it.



If I have the product I will raise the funds to move it or to have it processed. So this would not be the problem. We agencies know how to work together. If one has money and the other one has product, we know how to get together and do that. We solve our own problems. We would love to have this problem. She was talking about her problem being an empty shelf, not too much food. So we know how to solve those problems.

Mr. FERSH. I am going to venture perhaps beyond my immediate knowledge and I hope Kathleen will help me. From my experience not everyone has the wherewithal that Larry does. His is a remarkable program from what I know. At least in the history of the TEFAP program, our commodity distribution program, there are issues about getting commodities out in proper sizes and usable form. If you simply give flour to the poor, many of them do not have good cooking facilities or storage facilities.

Ms. KERSEY. Or eggs.

Mr. FERSH. Or eggs for that matter or perishables. So I do not know the details fully. I just think you are onto something and it ought to be looked at carefully to make sure that you are giving the kinds of commodities that can be best utilized, that are appropriate for low income households.

Again, there are plenty of ingenious people who can take very little and turn it into a hell of a lot.

Mr. JONES. We are addressing that. He is correct. We were giving out flour and cornmeal. Now we are working with Shawnee Mills to give them biscuit mix. All they have to do is put water with it. ~~Cake mix~~, muffin mix, pancake mix, you name it. So we are working. He is exactly right. But here again that is feasible.

Senator DASCHLE. Well, I like your enthusiasm and I like your "can do" spirit. I just wish it would be more pervasive in Washington.

Mr. JONES. It will be on Channel 7 at 7:00 a.m. on Sunday morning. [Laughter.]

Senator DASCHLE. Well, I will stay tuned, as they say.

Let me thank all of our witnesses for their testimony and for their help this afternoon as we assess this plan. I guarantee you we are just beginning, and we are not going to let up. We are going to take the kind of enthusiasm I have just heard and try to share it with our colleagues, first on the committee and then with the Senate itself.

With that, the hearing stands adjourned.

[Whereupon, the hearing was adjourned at 3:39 p.m.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

[SUBMITTED BY SENATOR DASCHLE]

### DESCRIPTION OF S. 1826 (THE CROP-SHARING HUNGER RELIEF ACT)

[Prepared by the Staff of the JOINT COMMITTEE ON TAXATION, October 15, 1991, JCX-20-91]

#### INTRODUCTION

The Subcommittee on Energy and Agricultural Taxation of the Senate Committee on Finance has scheduled a public hearing on S. 1826 ("The Crop-Sharing Hunger Relief Act") on October 16, 1991. This document,<sup>1</sup> prepared by the staff of the Joint Committee on Taxation, provides a description of present law and the provisions of S. 1826, as well as a brief analysis of issues related to the bill. S. 1826 would allow individuals an augmented charitable contribution deduction for donations of certain surplus agricultural commodities.

Part I of the document is a summary. Part II is a description of relevant present-law tax rules. Part III is a description of S. 1826, and Part IV discusses certain issues related to the bill.

#### I. SUMMARY

##### *Charitable contributions*

Taxpayers who itemize deductions may claim a charitable contribution deduction for Federal income tax purposes for property donated to certain qualified organizations. A taxpayer generally is allowed to claim a deduction for the fair market value of the donated property at the time of the contribution. However, the amount of the deduction allowable for a taxable year with respect to charitable contribution may be reduced depending on the type of property contributed, the type of charitable organization to which the property is contributed, and the income of the taxpayer.

Contributions made directly to a foreign organization are not deductible for Federal income tax purposes. However, charitable gifts directly made to a qualified domestic entity may be deductible even though the funds or property are turned over to a foreign organization, provided that the domestic entity exercises sufficient control and discretion over the donated property.

##### *Augmented deductions for corporate contributions of inventory property used for the ill, needy, or infants, and scientific research property*

Special rules provide for an augmented charitable contribution deduction for certain contributions made by corporations of inventory property used for the care of the ill, the needy, or infants, and certain scientific research property donated to educational or scientific organizations. The deduction for such donations is equal to the corporation's basis in the property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, but in no event may the deduction exceed twice the basis in the contributed property.

##### *S. 1826: The Crop-Sharing Hunger Relief Act*

S. 1826 would provide an augmented charitable contribution deduction for certain contributions made by individuals of agricultural products included on a surplus

<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *Description of S. 1826 (The Crop-Sharing Hunger Relief Act.)* (JCX-20-91), October 15, 1991.

commodity list to be established by the Secretary of the Treasury. The donated commodity would have to be used solely for the purpose of feeding individuals in famine, disaster, or economically depressed areas, and certain other requirements would have to be satisfied.

Under the bill, the deduction for a qualified commodity contribution would be equal to the lesser of: (1) the "parity price" of the commodity, or (2) 200 percent of the taxpayer's basis in such property. For purposes of the bill, the "parity price" would be set by the Department of Agriculture pursuant to the Agricultural Adjustment Act of 1938, and generally is an amount set so that a commodity would have the purchasing power (in terms of goods and services bought by farmers) as prevailed during the period 1910-1914.

The bill would apply to contributions made (or commodities acquired) after December 31, 1991.

## II. PRESENT-LAW TAX RULES

### *Charitable contributions: general rules*

Taxpayers who itemize deductions are entitled to claim a charitable contribution deduction for Federal income tax purposes for property donated to certain qualified organizations (generally referred to as "charities") (Code sec. 170). The contributed property may be in the form of cash, tangible or intangible personal property, or real property.

Generally, a taxpayer is allowed to claim a deduction for the fair market value of the donated property at the time of the contribution.<sup>2</sup> However, the charitable contribution deduction is limited to the donor's adjusted basis in the case of the following types of gifts: (1) ordinary income (or short-term capital gain) property; (2) tangible personal property, if the use of such property by the donee is unrelated to its exempt purpose; and (3) donations to private foundations (with certain exceptions<sup>3</sup>) (sec. 170(e)).

### *Eligible donees*

A charitable contribution deduction is allowed for contributions to the following donees: (1) the United States, a State or local government, or possession of the United States; (2) an organization created or organized in the United States that is organized and operated exclusively for religious, charitable, scientific, literary, educational, or similar purposes and that meets certain other requirements; (3) certain war veterans organizations; (4) a domestic fraternal society, provided that the gift is made by an individual and used exclusively for charitable purposes; and (5) certain cemetery companies operated exclusively for the benefit of their members (sec. 170(c)).

Although contributions made directly to a foreign organization are not deductible for Federal income tax purposes, charitable gifts made to a domestic entity described in section 170(c) may be deductible even though all, or some portion, of the funds or property are used in a foreign country for charitable or educational purposes or indirectly turned over to a foreign charitable organization. Deductibility for Federal income tax purposes depends on whether the domestic organization exercises sufficient control and discretion over the donated funds such that it (and not a foreign entity) is considered to be the real beneficiary of the contributed property.<sup>4</sup>

### *Augmented deductions for contributions of certain inventory and scientific property*

#### *Inventory property for the ill, needy, or infants*

A special rule adopted by Congress in 1976 permits corporations (other than S corporations) to claim a charitable contribution deduction in excess of the contributed property's adjusted basis if the property is inventory property (or depreciable or real property used in the corporation's business), provided that: (1) the use of the property by the donee is related to its exempt purpose and is to be used solely for the care of the ill, the needy, or infants; (2) the property is not transferred by the donee in exchange for money, property, or services; (3) the donor receives from the donee a written statement that the property will be used for the care of the ill, the needy, or

<sup>2</sup> See Treas. Reg. sec. 1.170A-1(c).

<sup>3</sup> A fair market value deduction is allowed for donations to certain private operating foundations (sec. 170(e)(1)(b)(ii)). In addition, a fair market value deduction is allowed for donations to private foundations of stock for which market quotations are readily available on an established securities market (sec. 170(e)(5)).

<sup>4</sup> See Rev. Rul. 66-79, 1966-1 C.B. 48; Rev. Rul. 63-252, 1963-2 C.B. 101. However, certain corporate contributions to a trust, chest, fund, or foundation are deductible under section 170 only if used within the United States or its possessions (sec. 170(c)(2)).

infants; and (4) the property satisfies any relevant requirements under the Federal Food, Drug, and Cosmetic Act (sec. 170(e)(3)).

The amount of the deduction for qualified contributions for the ill, the needy, or infants is equal to the corporation's basis in the property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, but in no event may the deduction exceed twice the basis in the contributed property.<sup>5</sup>

#### *Contributions of scientific research property*

In 1981, Congress provided for a special rule for corporate contributions of tangible inventory property used for research. Under this rule, a deduction is allowed in excess of the property's basis if: (1) the donation is made to certain educational or scientific organizations; (2) the property is donated not later than two years after it is constructed by the corporation; (3) the property is scientific equipment substantially all of the use of which by the donee is for research or experimentation; (4) the original use of the property is by the donee and it is not transferred by the donee in exchange for money, other property, or services; and (5) the donee supplies the donor with a written statement that the property will be used for research (sec. 170(e)(4)).

As with corporate donations of property for the ill, the needy, or infants, the amount of the charitable contribution deduction for corporate donations of research property is equal to the corporation's basis in the property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, but in no event may the deduction exceed twice the basis in the contributed property (sec. 170(e)(4)(A)).

#### *Minimum tax treatment of donated appreciated property*

For purposes of computing alternative minimum taxable income (AMTI), section 57(a)(6) provides that the deduction for charitable contributions of capital gain property is disallowed to the extent that the fair market value of the property exceeds its adjusted basis.<sup>6</sup> However, a special rule provides that, in the case of any taxable year beginning in 1991, section 57(a)(6) does not apply to charitable contributions of tangible personal property (e.g., artwork).

#### *Percentage limitations*

##### *Individuals*

*In general.*—A charitable contribution deduction claimed by an individual may not exceed a certain percentage of the individual's "contribution base" (defined as adjusted gross income (AGI) computed without regard to any net operating loss carryback to the taxable year). Contributions in any one year in excess of the percentage limitation may be carried forward and deducted over the five succeeding taxable years (subject to percentage limitations in those years<sup>7</sup>). The applicable percentage limitation depends on both the characteristics of the donee organization and the type of property contributed.

*50-percent limitation.*—Contributions to public charities<sup>8</sup> (and certain private operating foundations) of non-appreciated property (e.g., cash or ordinary income property) are subject to the 50-percent limitation (sec. 170(b)(1)(A)).

*30-percent limitation.*—Contributions to public charities of appreciated property (meaning capital gain property as to which a fair market value deduction is allowed

<sup>5</sup> The special provisions of section 170(e)(3) do not apply to amounts treated as ordinary income because of recapture rules (sec. 170(e)(3)(C)).

<sup>6</sup> Section 57(a)(6) generally does not apply to corporate contributions of inventory or scientific property under sections 170(e)(3) or 170(e)(4). However, a corporate donation under section 170(e)(3) of certain depreciable or real property used in a trade or business could be reduced by the amount of built-in appreciation for purposes of computing AMTI (secs. 57(a)(6)(B), 170(b)(1)(C)(iv), 170(e)(3)(A), 1221, and 1231(b)(1)).

<sup>7</sup> See sections 170(b)(1)(C)(ii), 170(b)(1)(D)(ii), and 170(d)(1).

<sup>8</sup> A tax-exempt organization described in section 501(c)(3) is characterized as a "private foundation" unless it specifically qualifies as a "public charity" under section 509(a). Examples of public charities include: churches, schools, hospitals, and organizations which normally receive a substantial part of their support from governmental units or contributions from the general public.

for regular tax purposes<sup>9</sup>) are subject to the 30-percent limitation.<sup>10</sup> The 30-percent limitation also applies to gifts to private foundations of non-appreciated property and gifts of certain income interests "for the use of" a charitable organization.

*20-percent limitation.*—Contributions of appreciated property to private foundations are subject to the 20-percent limitation (sec. 170(b)(1)(D)(i)).

#### *Corporations*

The maximum charitable contribution deduction which may be claimed by a corporation for any one taxable year is limited to 10 percent of the corporation's taxable income (disregarding charitable contributions and with certain other modifications) (sec. 170(b)(2)).<sup>11</sup>

#### *Substantiation requirements*

In 1984, Congress directed the Treasury Department to issue regulations requiring substantiation of certain non-cash charitable contributions. Pursuant to this directive, Treasury Department issued regulations that require taxpayers to provide information to the IRS (by filing Form 8283) about noncash charitable contributions and obtain a qualified written appraisal for items or groups of similar items (other than certain securities) for which a deduction is claimed of more than \$5,000 per item or group (Treas. Reg. sec. 1.170A-13(b)).<sup>12</sup>

Also as part of the 1984 Act, Congress required that if, within two years after a charity receives certain contributed property, the charity sells, exchanges, or otherwise disposes of the property, then the charity must file an information return with the IRS (and furnish a copy to the donor) showing the name of the donor, the amount received on the disposition, and certain other information about the disposed property (sec. 6050L). This information reporting requirement applies to property (other than publicly traded securities) for which a charitable contribution deduction was claimed under section 170 if the claimed value of such property (plus the claimed value of all similar items of property donated by the donor to one or more donees) exceeds \$5,000. However, the information reporting requirement of section 6050L does not apply if the consumption or distribution of the donated items is in furtherance of the charity's exempt purpose (e.g., medical supplies distributed by a relief organization) (Treas. Reg. sec. 1.6050L-1(a)(3)).

### III. DESCRIPTION OF S. 1826 (THE CROP-SHARING HUNGER RELIEF ACT)<sup>13</sup>

#### *Augmented deduction for qualified commodity contributions*

S. 1826 would provide an augmented charitable contribution deduction for certain qualified commodity contributions. The augmented deduction would be available only to individuals (and not corporations, estates, or trusts). The augmented deduction would apply to contributions of agricultural commodities which, at the time of purchase (or, if not purchased by the taxpayer, at the time of the contribution) are on a surplus commodity list established by the Secretary of the Treasury in consultation with the Secretary of Agriculture.<sup>14</sup>

The commodity would have to be contributed to a tax-exempt public charity described in section 501(c)(3) and would have to be used by the recipient organization solely for the purpose of feeding individuals in famine, disaster, or economically depressed areas. In addition, the following requirements would apply: (1) the property could not be transferred by the donee in exchange for money, other property, or

<sup>9</sup> The 30-percent limitation applies to a gift to a public charity of appreciated property only if the donor wished to deduct the fair market value of the property when computing regular tax. Alternatively, the donor may elect to deduct only his basis in the property, in which case the 50-percent limitation applies (sec. 170(b)(1)(C)(iii)).

<sup>10</sup> The maximum deduction allowed for such contributions is equal to the lesser of (1) 30 percent of the taxpayer's contribution base, or (2) the amount of the taxpayer's 50-percent limitation remaining after the taxpayer's contributions of non-appreciated property to public charities are considered (sec. 170(b)(1)(B)).

<sup>11</sup> A transfer of property qualifies as either a charitable contribution or a deductible business expense, but not both. No deduction is allowed as a business expense under section 162 for any contribution that would be deductible as a charitable gift under section 170 were it not for the percentage limitations contained in section 170 (sec. 162(b)). Likewise, a business transfer made with a reasonable expectation of financial return commensurate with the amount of the transfer is deductible only as a business expense under section 162 (Treas. Reg. sec. 1.170A-1(c)(5)).

<sup>12</sup> Special substantiation rules apply to inventory and research property for which the augmented deduction is claimed under section 170(e)(3) or 170(e)(4) (Treas. Reg. sec. 1.170A-13(c)(1)(ii)).

<sup>13</sup> S. 1826 was introduced on October 8, 1991, by Senators Daschle, Boren, Pryor, and Exon.

<sup>14</sup> The list periodically would be revised to reflect any changes in the availability of a commodity.

services; (2) the donor receives a written statement that the commodity would be used to feed individuals in famine, disaster, or economically depressed areas; and (3) the commodity satisfies relevant requirements under the Federal Food, Drug, and Cosmetic Act.

#### *Computation of augmented deduction*

Under the bill, the deduction for a qualified commodity contribution would be equal to the lesser of: (1) the "parity price" of the commodity, or (2) 200 percent of the taxpayer's basis in such property.

For purposes of the bill, the "parity price" for an agricultural commodity would be determined under section 301(a)(1) of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1301(a)(1)). The parity price generally is an amount set by the Department of Agriculture to give a unit of a commodity the same purchasing power (in terms of goods and services bought by farmers) as prevailed during the period 1910-1914.

The augmented deduction would be available for any taxable year only to the extent that the taxpayer's aggregate basis in the commodities contributed did not exceed \$10,000. Thus, the maximum deduction that an individual could claim under the bill for any taxable year would be \$20,000 (200 percent of \$10,000).

#### *Exemption from alternative minimum tax*

Qualified commodity contributions under the bill would not be treated as a preference item for purposes of computing alternative minimum tax (i.e., the full augmented deduction would apply in calculating AMTI).

#### *Effective date*

The bill would apply to contributions made (or commodities acquired) after December 31, 1991.

### IV. ANALYSIS OF ISSUES

#### *Rationale for 200-percent limitation*

The bill provides that the qualified commodity contribution deduction claimed may not exceed twice the taxpayer's basis in the contributed property. Consequently, provided that a taxpayer's combined Federal, State, and local marginal tax rate is less than 50 percent, the tax benefit of the augmented deduction would be less than the amount spent by the donor to produce or acquire the donated commodity.<sup>15</sup>

#### *Economic effects of the proposal*

##### *Effects on charitable donations*

The augmented value of the deduction for qualified commodity contributions should provide an incentive for such donations. The effect on other types of charitable donations is uncertain because of two counteracting effects. Because a dollar donated in the form of qualified commodity contributions would have a larger tax benefit than a dollar donated in an alternative form, donors may be induced to substitute qualified commodity contributions for other forms of donations. At the same time, the augmented value of the deduction for qualified commodity contributions would result in a lower cost of this form of donation: each dollar of tax benefit would require a smaller outlay. Making some donations through the lower-cost form of qualified commodity contributions could free up more resources for all types of donations as well as for consumption of other goods. The net effect on the amount of any type of donation other than of qualified commodities would depend upon which of the two effects described above would predominate.

##### *Effects on markets for eligible commodities*

Eligible commodities for donations would be those on a list of surplus commodities prepared by the Secretaries of the Treasury and Agriculture. Surpluses of commodities can arise when government price support or loan programs result in a price paid to farmers above the market-clearing price of the commodity.<sup>16</sup>

<sup>15</sup> There may be situations under the bill, however, where it is more advantageous for a taxpayer to donate a commodity rather than to sell it, if the market price has fallen below the taxpayer's basis.

<sup>16</sup> The "market-clearing price" is the price for a commodity which induces farmers to produce an amount of the commodity equal to the amount which consumers are willing to purchase at that price.

By encouraging the demand for eligible commodities, the bill should have effects of both reducing the size of existing surpluses of the commodities and of increasing the market-clearing price of the commodities. To the extent surpluses are reduced, total Federal spending on farm support programs would be reduced.

Whether the price paid by the commodities' consumers is affected by the proposal would depend upon the type of government program that applies to the commodity. If the price of the commodity is supported above the market-clearing price, so that consumers face the support price for their purchases of the commodity, then any increase in the market-clearing price caused by this proposal should have no direct effect on consumers. In contrast, if the price of the commodity is set by the market and the government pays producers deficiency payments equal to the difference between the market-clearing price and a target price, then any increase in the market-clearing price caused by this proposal should increase the price to consumers. For consumers not receiving donated commodities in famine, disaster, or other economically depressed areas, such an increase in the price of the commodity may lead to a reduction in well-being.<sup>17</sup>

#### *Duplicate distribution networks*

Concerns have been expressed that the bill could result in a duplication of current government efforts directed at distributing surplus commodities to relieve hunger and could foster a new industry of food brokers, processors, and distributors, which may not be as efficient as the current distribution network.

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DEPARTMENT OF THE TREASURY,  
Washington, DC, October 16, 1991.

Hon. TOM DASCHLE,  
Committee on Finance,  
U.S. Senate,  
Washington, DC.

Dear Senator Daschle: Thank You for inviting the Administration to express its views on S. 1826, entitled the "Crop Sharing Hunger Relief Act." I appreciate your including this letter in the record of the hearing on the bill.

Your summary of the bill describes it as having two goals: "(1) to reduce non-tax farm subsidies; and (2) to redirect existing agricultural surpluses to places where they are most needed—namely, to feed the hungry." These goals are to be advanced "by allowing individuals to purchase commodities that are in surplus in a given year, donate them to a qualifying hunger relief organization, and take a tax deduction for the 'parity' price of the commodity," up to twice what the individual paid for the commodities.

#### BACKGROUND

Under section 170 of the Code, if a donor makes a charitable contribution other than in cash, the donor's deduction generally equals the fair market value of the property contributed. In no event is a charitable deduction allowed for an amount in excess of fair market value. Moreover, section 170(e)(1) reduces the otherwise allowable fair market value deduction by any untaxed ordinary income component in the property (such as profit in the case of inventory or depreciation recapture in the case of trade or business property). Section 170(e)(1) further reduces the donor's deduction by any untaxed long-term capital gain component unless the donee uses the property in an activity related to its exempt purpose.

Section 170(e)(3) modifies these rules by allowing corporate donors a special deduction for donations of inventory or trade or business property to an organization described in section 501(c)(3) (other than a private foundation that is not an operating foundation) for the use of charitable beneficiaries. This special treatment is permitted only if—

- (i) the use of the property by the donee is related to its tax-exempt purpose, and the property is to be used by the donee "solely for the care of the ill, the needy, or infants;"
- (ii) the donee does not transfer the property for money, other property, or services;

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<sup>17</sup> To the extent that there are savings in farm support program costs that exceed reduced tax revenues from the augmented charitable contribution deduction under the bill, those net savings could be used to benefit some individuals.



- (iii) the donee provides the donor with a written representation that its use and disposition of the property will meet the foregoing requirements; and
- (iv) if the property is subject to regulation under the Federal Food, Drug, and Cosmetic Act, the property fully satisfies the requirements of that Act and the regulations thereunder on the date of the transfer and for the preceding 180 days.

If the requirements of section 170(e)(3) are satisfied, the corporate donor may deduct an amount equal to the donor's basis plus one-half of the gain that would have been taxed as ordinary income on the sale of the donated property. The amount of this deduction may not, however, exceed twice the donor's basis in the donated property.

Section 170(e)(4) provides similar treatment for corporate donations of certain self-constructed property that is to be used for research by the donee organization.

#### *Description of the Bill*

S. 1826 would extend to *individual* donors and to agricultural commodities a charitable deduction treatment somewhat analogous to that presently available only to *corporate* donors of certain types of inventory, trade or business, or self-constructed scientific property. The bill would amend section 170(e) by adding a new paragraph (6) which would provide special tax treatment for a "qualified commodity contribution." A qualified commodity contribution is defined as a charitable contribution made by an individual (other than an estate or trust) of an eligible commodity to a section 501(c)(3) organization (other than a private foundation that is not an operating foundation), but only if (1) "the use of the property by the donee is solely for the purpose of feeding individuals in famine, disaster or other economically depressed areas" and (2) requirements similar to those described above with respect to corporate contributions of inventory or trade or business property are met with respect to the contribution.

The bill defines an "eligible commodity" as "any agricultural commodity which, at the time of purchase (or if it is not purchased by the taxpayer, at the time of contribution), is a commodity on the surplus commodity list." The "surplus commodity list" is defined as a list of surplus commodities established by the Secretary of the Treasury, in consultation with the Secretary of Agriculture. The list is to be revised to reflect changes in the availability of any commodity.

Under the bill, the donor's deduction would be the lesser of the "parity price of the commodity" or "200 percent of the taxpayer's basis in the property." The parity price of the commodity is to be determined under section 301(a)(1) of the Agricultural Adjustment Act of 1938 (7 U.S.C. §1301(a)(1)). The bill provides, however, that "contributions of eligible commodities shall not be taken into account . . . for any taxable year to the extent that the taxpayer's aggregate basis in all such commodities contributed exceeds \$10,000.

Section 57(a)(6)(A) of the Code includes in the alternative minimum tax base the amount of untaxed capital gain inherent in "donated capital gain property." The bill would amend section 57(a)(6) to exclude from the minimum tax base any eligible commodity contributed in a qualified commodity contribution.

The bill would be effective for contributions made after December 31, 1991 of commodities acquired after that date.

#### *Administration Position*

The Administration opposes the bill for the reasons set forth below:

First, the bill departs from longstanding principles of tax law by allowing a charitable contribution deduction for an amount that in most cases would exceed the fair market value of the property contributed. During the 1980's, efforts by taxpayers to obtain deductions inflated above fair market value led to syndicated and widely marketed tax shelters that undermined public confidence in the fairness of the income tax. The bill is designed to encourage individual taxpayers to purchase surplus commodities for the purpose of immediate donation, in order to obtain a tax deduction at an amount higher than the donor's cost. Because the annual cap is measured by basis, rather than parity price, each individual who purchases commodities would be potentially eligible (assuming the parity price equals twice basis) to deduct \$10,000 over and above the purchase price of the commodity. The bill endeavors to ensure that, with current tax rates, individuals who purchase commodities to take advantage of this bill will incur some after-tax cost by limiting the amount of deduction to 200 percent of the taxpayer's basis, and limiting the annual deduction to \$10,000 above the purchase price of the commodity. Nevertheless, charities and suppliers of commodities would have an incentive to market these tax programs widely.

Second, since most farmers are already permitted to deduct the costs of producing commodities, their basis will be zero and, by limiting the deduction to an amount that does not exceed 200 percent of basis, the bill effectively denies farmers any deduction for making the contributions directly. This ensures the presence of middlemen to facilitate the sale of the commodities to individuals who will then make the desired contributions. Such a system produces inefficient transactions costs.

Third, a stated purpose of the bill is "to reduce non-tax farm subsidies." However, the bill would add a tax expenditure (or subsidy) to non-tax agricultural subsidies. The bill does not make commodities that have received subsidies under farm programs ineligible for the charitable deduction provided under the bill. There is no reason to believe that the indirect tax subsidy of this bill would prove more efficient or equitable than direct subsidies for these commodities.

Fourth, although the contribution of agricultural commodities to charitable relief organizations is a laudable goal, similar claims could be made for contributions of other items to other types of charitable organizations. Because of the difficulty of distinguishing among such competing claims, this bill will undoubtedly lead other charitable organizations to urge allowing charitable deductions in excess of fair market value to further their worthy causes. We oppose this departure from longstanding limitations on charitable contribution deductions.

Fifth, the bill requires the Secretary of the Treasury to establish, and revise, a list of surplus commodities in consultation with the Secretary of Agriculture. The Treasury Department has no expertise in this area. Such surplus commodities designations should be made by the Secretary of Agriculture.

Finally, the Administration opposes this bill because it will lose revenue and therefore violate the pay go provisions of the 1990 Budget Act.

Thank you for inviting us to comment on your bill

Sincerely,

KENNETH W. GIDEON, *Assistant Secretary*  
(*Tax Policy*)

#### PREPARED STATEMENT OF ROBERT J. FERSH

My name is Robert Fersh, and I am executive director of the Food Research and Action Center here in Washington. FRAC, as we are commonly called, works to alleviate hunger and poverty in the United States. We work on many different levels, but our primary expertise is in the federal food assistance programs.

I want to thank you, Mr. Chairman, and the members of the Subcommittee, for marking World Food Day with this hearing and inviting me to testify on the tragic but solvable problem of hunger in the United States. Millions of kids are hungry in America. But these children often seem invisible. In fact, many Americans are unaware of the dimensions of hunger here at home. It's time to make hunger a national priority.

America's hungry children do not have the distended bellies and emaciated bodies that children in famine-stricken areas of the world display. Hunger here is more subtle, and is difficult to identify and measure. Responding to the need for a credible measure of hunger in the U.S., FRAC recently coordinated the most rigorous, comprehensive study of childhood hunger ever conducted in this country—the Community Childhood Hunger Identification Project, or CCHIP.

CCHIP surveys were conducted coast to coast, looking at urban families and rural families, families of various races and ethnic backgrounds, two-parent and single-parent families, working families and unemployed families. The results from all sites were disturbing.

Estimates based on the CCHIP studies indicate that roughly five million American children under the age of 12 are hungry. That's about one in eight young children in the United States.

CCHIP also told us that the impact of hunger on American children manifests itself in the lower birth weights of newborns, and in many specific health problems, such as unwanted weight loss, fatigue, headaches, irritability, inability to concentrate and frequent colds. CCHIP found that hungry children experience two to three times these specific health problems as their non-hungry peers. As the result, hungry kids miss school more often. Without help, these children may end up unable to compete in school, and later, to produce in the workplace.

Unlike other countries, where famine and war take their toll, in the United States hunger is caused by poverty. In America today, one in five children lives in

poverty. For very young children and Blacks and Hispanics, the count is even higher. In fact, children represent the poorest population in our country.

For the United States as a whole, the numbers are rising. Between 1989 and 1990, poverty in the U.S. rose by five and a half percent. It will be at least another year before the full impact of the recession will be known, but as employment has stagnated, and unemployment insurance benefits have run out for millions of jobless people, demand for food assistance has steadily increased. Emergency food centers across the country are again reporting increased need. Participation in the Food Stamp Program has hit an all-time high this year. The estimates from our CCHIP study, released just last March, are by now, I'm certain, out of date.

Perhaps the greatest tragedy—and the great opportunity—of hunger is that it is wholly preventable. We have more than enough food in this country to ensure that everyone is properly fed. It is simply a matter of making this food accessible to all who need it. As your bill shows, Mr. Chairman, there are many ways in which we can and must make this happen.

Across the country, concerned people are mobilizing. When we released our CCHIP results in March, FRAC and its network of anti-hunger groups in 47 states, launched the Campaign to End Childhood Hunger. More than 100 national leaders and organizations, including Members of Congress and Senators, corporations and unions, religious groups, nonprofit organizations and others, have endorsed this effort. Through volunteer and advocacy efforts all are working to end childhood hunger in the United States.

On the front lines are men and women volunteering at community-based soup kitchens and food pantries. Donations are provided by individuals and businesses, farmers, food manufacturers and the federal government. Food redistribution is expertly handled by food banks. We are supportive of efforts to encourage donations and avoid spoilage, and are aware that many emergency feeding programs do not have sufficient food. We must also assure that there are no tax disincentives to food donations.

But there are limits to private distribution. Emergency food is not available everywhere. And, try as they might, soup kitchens and food pantries can not guarantee a nutritionally balanced selection of foods. Additionally, unpredictable supply and demand mean that food is not always available. And, frankly, watching children and adults line up for supper after long days at school or in search of jobs is horrifying and embarrassing—for all of us.

When the federal government has limited resources to commit to the fight against hunger, we must stress our first priority: food security—or access by all people at all times through normal channels to enough nutritionally adequate food for an active, healthy life.

That is why the federal government established the food assistance programs. Among these programs—which include the school lunch and breakfast programs; the Special Supplemental Food Program for Women, Infants and Children or WIC; summer food; child care food; and, TEFAP—the most important is the Food Stamp Program.

As I mentioned earlier, food stamp participation reached an all-time high this year, showing the program's ability to respond effectively to changes in the economy. But, as good as the program is, benefit levels are low and barriers prevent millions of children, women and men from participating.

Legislation is being marked-up this afternoon by the House Agriculture Committee—the Mickey Leland Childhood Hunger Relief Act (H.R. 1202)—that would go a long way toward lifting families out of hunger. Senators Leahy and Sasser have introduced similar legislation (S. 757). Over 90 percent of the benefits that the Leland bill would provide would go to families with children.

I commend Chairman Daschle for the support he's given to the Leland bill. The Finance Committee is critical to the ultimate success of the bill. In the House, which must originate legislation to pay for the Leland bill, the Ways and Means Committee Chairman has pledged his support. I encourage you, Mr. Chairman, and the members of the Finance Committee, to work with your colleagues in the Senate and the House to support and fully fund the Leland bill.

By improving emergency assistance and food distribution channels, and federal programs, such as food stamps, we can bring an end to the scourge of hunger in our country.

Thank you.

Attachment.

**FINANCE AND WAYS AND MEANS COMMITTEES CONTROL FATE OF CHILDHOOD HUNGER  
RELIEF LEGISLATION**

The Mickey Leland Childhood Hunger Relief Act of 1991 (H.R. 1202 and S. 757) can only become law if it is paid for by the Senate Finance Committee and the House Ways and Means Committee as part of a package to address low-income children's needs. Although these committees' jurisdiction has not extended to nutrition programs in the past, the "pay-as-you-go" budget rules resulting from last year's Budget Summit effectively require them to provide financing before the Leland Bill can be enacted. To pay for the Leland Bill, the Finance and Ways and Means Committees must find approximately \$300 million in FY92 and \$5.2 billion over five years.

Over half of all food stamp recipients are children, and almost 83% of food stamps go to families with children. The Leland Bill is designed to target over 90% of its increases on these families to ensure that children receive enough food to grow and learn. The results of the nationwide Community Childhood Hunger Identification Project (CCHIP) releases in March found that an estimated 5.5 million children in the United States under age 12 are hungry and a total of 11.5 million are hungry or at risk of hunger.

The Leland Bill was introduced in the House by Rep. Leon Panetta (D-CA), Chairman of the House Budget Committee, Rep. Bill Emerson (R-MO), Ranking Minority Member of the Select Committee on Hunger, and Rep. Kika de la Garza, Chairman of the House Agriculture Committee. Sens. Patrick Leahy (D-VT) and Jim Sasser (D-TN), Chairmen of the Agriculture and Budget Committees, respectively, introduced it in the Senate.

**The bill would help families with children at the brink of homelessness:**

- **It would allow families with children to deduct high shelter costs in the same way that elderly and disabled households do at present.** Under current law, families with children may deduct shelter expenses that exceed 50% of their incomes, but only up to a cap of \$186 a month. The cap has the effect of forcing families with children to choose between heating and eating. HUD and Census Bureau data show that 45% of all poor renters spend at least 70% of their incomes on shelter costs. The cap does not apply to elderly and disabled households; the bill would phase it out for other households as well.

- **It also would allow relatives to be separate food stamp households if they buy and cook food separately** (except that minor children could not be separate from their parents). People who buy and cook together, whether or not they are relatives, would still be combined into single households. Current law forces most people to apply together with their parents, adult children, and siblings even if they do not share resources or buy and cook together. These rules not only deny food stamps to needy people but also may break up families and force people into shelters by threatening to cut off the food stamps of people doubling up with relatives. These rules hurt farm workers, who may live separately in their base states but double-up with relatives in labor camps during their travels to save money.

**The bill would encourage the payment and collection of child support:**

- **It would exclude the first \$50 a month paid as child support from consideration as income in determining food stamp allotments.** This will give custodial parents an incentive to seek out absent parents and absent parents an incentive to pay child support. AFDC already allows households to keep the first \$50 of child support paid each month, but the Food Stamp Program currently undercuts these incentives by counting the \$50 payments as income, which reduces food stamps.

- **It would exclude from low-income households' income any legally-obligated child support payments household members make to people outside of their household.** This would encourage low-income absent parents to make support payments and ensure that their ability to feed their current families is not unduly burdened by their performance of their child support obligations. Under present law, responsible absent parents who pay child support receive no more food stamps than similarly situated others who keep that money for themselves. Money paid as child support from one poor household to another is counted twice: once when the absent parent receives it as wages or other payments and then again when the child's household receives the support payments. This change is important because many low-income children's absent parents themselves also have low-incomes. Encouraging these parents to pay support is important to those children's long-term self-sufficiency. Preventing the current double-counting will improve the Program's equity, promote compliance with support obligations, and reduce hunger among both children with

absent parents and those living with parents or stepparents who have support obligations to other households.

**The bill would assist working families with children:**

- It would index the current \$4,500 limit on the fair market value of vehicles that food stamp recipients may own. The current \$4,500 limit was written into the Act in 1977 and has not changed since, despite rapid inflation. As inflation passes the \$4,500 vehicle resource limit by, more and more working families are made ineligible for food stamps because of cars they depend upon to get to work. Working households may be forced to choose between going hungry for lack of food stamps, and selling their cars, which can force them to leave their jobs.

- It would raise food stamp benefits in stages to a level more closely reflecting the actual current cost of purchasing food instead of the cost of the "Thrifty Food Plan" the previous June. Food stamps provide an average of less than \$0.70 per person per meal. The maximum food stamp benefit for a family of four provides only \$0.96 per person per meal. The Food and Nutrition Service has reported that "fewer than one in ten families spending an amount of money equivalent to the cost of the Thrifty Food Plan received 100 percent of the Recommended Daily Allowances. Less than half received even two thirds of the Recommended Daily Allowances." 45 Fed.Reg. 22876 (April 4, 1980). Almost two-thirds of those getting food stamps are elderly, disabled, or children.

**It would strengthen food stamp employment and training (E&T) programs.**

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PREPARED STATEMENT OF BRUCE L. GARDNER

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you to discuss the potential impacts of the "Crop-Sharing Hunger Relief Act" on farmers and farm commodity programs.

World Food Day is certainly an appropriate occasion to focus on helping the world's hungry people. While the humanitarian goals of the legislation are in keeping with the spirit of World Food Day, we see difficulties with the Bill's proposals for achieving these goals. Because of these difficulties, the Administration must oppose this legislation. Before addressing the Bill being considered today, I'd like to outline existing efforts to redistribute surplus agricultural commodities to the hungry.

EXISTING HUNGER RELIEF EFFORTS

The American people contribute billions of dollars each year to a wide variety of charitable causes. Internal Revenue Service data for 1989 (the most recent year for which complete data are available) indicate that individual taxpayers contributed over \$90 billion to charitable organizations. Of this amount, only a relatively small portion involved direct contributions of agricultural commodities to help feed the hungry, but private voluntary organizations (PVOs) redistribute a considerable amount of surplus commodities to help the disadvantaged. In FY 1990, PVOs registered with U.S. AID received \$2.3 billion in private cash and in-kind contributions.

Governmental programs are already in place with the same goals of helping the needy and hungry, reducing surpluses, and improving farm income. These programs operate both domestically and internationally. The Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) is directed to international needs, with an FY 1990 budget of \$1.5 billion. P.L. 480, Title II already works directly with the PVOs.

Food assistance is also provided under Section 416(b) of the Agricultural Act of 1949. This section authorizes the donation of commodities owned by the Commodity Credit Corporation to needy people overseas. These donations are made through foreign governments, non-profit humanitarian agencies and international organizations.

Section 32 of the Agricultural Act of 1949 is the basis for programs directed both domestically and internationally although presently Section 32 is directed mostly to domestic needs. Food distribution, child nutrition, and the Women, Infants and Children (WIC) programs generated \$7.4 billion in food program benefits in FY 1990.

PVOs, such as Worldvision, Catholic Relief Services, Lutheran World Federation, Save the Children Fund, CARE, and Plan International also provide international food assistance. PVOs receive most of their funding support from private donations and they receive food commodities from the government stocks of major food exporting countries, including the United States. The United States currently provides a wide variety of commodities through its food aid programs, including bulk, unproc-

essed commodities and foods easily used in relief camps with minimum service facilities. The proposed legislation would increase the role of PVOs in redistributing surplus commodities by increasing the tax advantages for contributors.

#### INCREASING TAX ADVANTAGES

The keystone of the proposed legislation is the incentive created by increasing the allowable Federal income tax deduction for commodity donations. Under current law, an individual who makes a charitable contribution may claim an itemized deduction on his or her Federal income tax return. In the case of contributions of property, the general rule is that the amount of the deduction is the fair market value of the property at the time of the contribution. This legislation would modify that rule for contributions of "surplus commodities" to a qualifying nonprofit organization that uses the commodity for the purpose of feeding individuals in famine, disaster, or other economically depressed areas. Under the proposal, a taxpayer would be allowed to claim a charitable contribution deduction equal to the parity price or 200 percent of the taxpayer's purchase price, whichever is less. This effectively doubles the tax benefit of surplus commodity donations relative to other charitable contributions until the maximum deduction of \$20,000 per year is reached. The attractiveness of the deduction is further enhanced by the exemption from the minimum tax, which applies to many high-income taxpayers.

Under current market conditions, the price of most agricultural commodities is less than 50 percent of parity (table 1). So, the effective limit on the amount of the contribution is the 200 percent of purchase price.

The larger tax benefit resulting from this proposal would provide a substantial incentive for taxpayers to make such contributions. For example, a taxpayer in the 31 percent Federal tax bracket would receive a Federal income tax savings of 62 cents for each dollar of surplus commodity contributed. In many instances, an additional savings of 10 to 20 cents in State income taxes can be expected. As a result, the after-tax cost to many taxpayers would be about one third of the contributed amount.

#### IMPLEMENTATION ISSUES

Implementing this legislation involves the mechanics of what commodities would be covered, how the parity pricing provision would be applied, how individual donors would interact with eligible PVOs, how the PVOs would handle and finance their supporting role, and how compliance with the bill's provisions would be monitored and enforced. The responsibilities of the Department of Agriculture involve determining eligible commodities and pricing these commodities tax for deductibility purposes. My remarks address only the determination of eligible commodities and their pricing.

Eligible commodities are defined as a list of "surplus" commodities. The list of surplus commodities could be based on several alternative criteria:

- commodities that the CCC owns in its inventories,
- commodities that have acreage or supply controls,
- commodities with prices below their trend or average price, e.g., below a 5-year moving average of the commodity's past market prices.

The essential concept of a surplus commodity is one whose supply exceeds market demand at some price thought to represent normal or desirable circumstances. Identifying a surplus then focuses on either low prices or governmental intervention to support the price by means of commodity acquisition, supply control, or producer payments. These different ways of identifying surplus commodities conflict with one another to some extent. For example, wheat has an acreage reduction program, but partly because the program has reduced supplies there are not presently surplus U.S. stocks. Indeed, the U.S. wheat market is currently "tight" in the sense that projected carryover stocks for next May are the lowest since the mid-1970s.

The approach that appears to fit best with the proposed Bill's intentions is to define surplus food commodities broadly as those which currently have government-owned stocks, acreage reduction, or deficiency payment programs, but not commodities for which no commodity programs exist. Beyond the problem of determining when a non-program commodity becomes a surplus commodity, there will always be a net budgetary outlay involved with applying this bill to a non-program commodity.

The use of parity prices to determine the deductible value of a commodity introduces complications. The parity price changes each month as the prices of farm inputs change. Thus, a rise in the farm wage rate would change the parity price of

every commodity, and hence the amount that could be deducted. Yet the surplus situation, and the market value of the commodity, might be completely unchanged. Thus the use of parity prices does not contribute to, and may even detract from, the Bill's focus on surplus commodities.

An important practical effect of the parity pricing provision is to prevent some commodities from being donated. Those commodities with prices greater than 50 percent of parity would receive a deduction of less than 200 percent of the market price. For example, using the July 1991 data, potatoes have a market price of \$8.14 per hundredweight and a parity price of \$11.00. If I donate \$1,000 worth of potatoes I receive a tax deduction of \$1,351. But if I donate \$1,000 worth of corn I receive a \$2,000 deduction (because the market price is less than 50 percent of the parity price). I would be foolish to donate potatoes, and the same is true for meats, apples and many other fruits and vegetables.

#### CONSEQUENCES OF PROPOSED CHANGES

The key consequences of this legislation are the effects on hunger relief, other charitable giving, U.S. tax revenue, farm program outlays, farm commodity prices, and farm income. Policies already exist in all of these areas. The question arises as to how the proposed program would work in conjunction with them. A general problem is that while the proposed Bill promises benefits on many accounts, it could reduce the effectiveness of already existing programs and activities.

*Hunger Relief Efforts.* The proposal may cause a change in the commodity mix offered by international relief organizations from demand driven requests toward supply driven shipments. Relief organizations may be offered large quantities of commodities that they don't need, or cannot easily handle. It may be more difficult to fit the offered commodities into ongoing efforts to ensure that food aid does not hinder the development of food production capabilities in receiving countries. Moreover, if relief organizations were unable to accept commodities that were offered there would be a problem that some taxpayers would be able to take advantage of a tax benefit while others could be denied the opportunity.

*Nonfood Charitable Contributions.* This legislation implicitly contains a judgment that food aid is socially twice as valuable as other charitable donations, perhaps more than twice since these deductions can reduce even the minimum tax. While the legislation is not limited to international relief efforts, such organizations are likely to be the primary beneficiaries. To the extent that the tax benefit difference encourages taxpayers to shift contributions to eligible PVOs, support for other domestic organizations will decline. The committee should consider the potential adverse impact of such a shift on domestic charitable organizations which are already struggling as a result of reduced support.

*Federal Tax Receipts.* How much the legislation would reduce Federal tax receipts depends upon a number of factors including the level and nature of the response in charitable giving, and the marginal tax bracket of the donor.

An issue most difficult to assess is the net additional charitable giving generated. We would expect that most donations to food relief organizations under current tax rules would be switched to the double-deduction form. For example, if half the \$2.3 billion that PVOs received in FY 1990 were converted to donations under this Bill's provisions, a budgetary cost equal to the average donor's tax rate times \$1.15 billion would be incurred even with no increase in donations to the PVOs.

New donations would contribute net increases in giving, but only to the extent that this new giving to PVOs is not transferred from charities that do not distribute food. Donations that are transferred from, say, the American Heart Association or other nonfood charities would again simply double the U.S. Treasury cost of existing donations.

#### FARM INCOME AND FARM PROGRAM OUTLAYS

The issues here are best introduced with an example. Suppose this legislation results in donations of \$28 million, consisting solely of 10 million bushels of wheat to be used for foreign distribution. The foregone federal tax revenues, assuming the contributors pay a marginal federal tax rate of 31 percent, would be \$17.4 million ( $\$28 \text{ million} \times 2 \times .31$ ). If the contributors' state tax rate averages 5 percent, state tax revenues would decline by \$2.8 million ( $\$28 \text{ million} \times 2 \times .05$ ). Total governmental tax receipts would fall by \$20.2 million.

Because wheat is a farm program crop, there is a potentially offsetting reduction in federal expenditures on farm programs. An increase in wheat demand of 10 million bushels is expected to raise U.S. wheat prices by \$0.015 per bushel. This price

increase would lower wheat deficiency payments by \$29 million. It would appear that there is a net government deficit reduction of \$8.8 million (\$29-\$20.2 million).

Unfortunately, this calculation represents the most favorable case, not the most likely. There are several factors which would turn this potential deficit reduction into an increase. First, the in-kind donations will not all be made in a farm program crop. Second, donations of other program crops would result in smaller farm program savings than for wheat. These two factors would greatly reduce the farm program savings estimate.

A third and more fundamental problem is that there are no requirements in the legislation to prevent eligible organizations from receiving newly donated wheat and then reduce the purchases of wheat and wheat products that they otherwise would have made. If this occurs, the net increase in wheat donated overseas would be less than the 10 million bushels indicated and the U.S. price increase would be smaller.

Fourth, if there is a net increase in foreign aid, there is nothing in this legislation to prevent a country that receives donated wheat from reducing the purchases of wheat and wheat products it otherwise would have made. Again, this would dilute the net increase in the price and the demand for U.S. wheat.

And fifth, to the extent that any net increase in demand for U.S. wheat does occur, the federal government could reduce the size of the wheat acreage reduction program and return more wheat land to production. The increased production would prevent any price increase or any reduction in wheat program outlays. So, what at first blush appears to be a hopeful way to reduce government budget deficits, in fact more likely increases them.

In summary, while the goals of the Crop-Sharing Hunger Relief Act are most worthy, we have serious reservations about the cost and consequences of the proposal. This concludes my testimony, Mr. Chairman. I will be happy to respond to questions.

Table 1.—UNITED STATES PARITY PRICES FOR FARM PRODUCTS AND AVERAGE PRICES RECEIVED AS PERCENT OF PARITY PRICES BASED ON DATA FOR JULY 1991

Commodity and unit	Parity price index (Dollar)	Current market to parity prices (Percent)
Basic Commodities:		
All Wheat, Bu .....	8.07	31
Rice, Cwt .....	22.20	31
Corn .....	5.65	39
Peanuts, Lb .....	.557	—
Designated Nonbasic:		
All Milk, Sold to Plants, Per Cwt .....	26.60	46
Other Nonbasic:		
Barley, Bu .....	4.99	35
Dry Edible Beans, Cwt .....	44.00	43
Oats, Bu .....	3.35	33
Potatoes, Cwt .....	11.00	74
Rye, Bu .....	4.33	—
Sorghum Grain, Cwt .....	9.53	40
Soybeans, Bu .....	12.40	42
Sweetpotatoes, Cwt .....	26.60	—
Apples, Fresh, Lb .....	.317	78
Citrus (equiv on-tree), box:		
Grapefruit .....	7.52	64
Lemons .....	9.18	231
Limes (FL) .....	18.30	5
Oranges .....	11.10	175
Tangerines .....	17.40	—
Temples (FL) .....	8.91	—
Beef Cattle, Cwt .....	128.00	60
Calves, Cwt .....	147.00	70
Hogs, Cwt .....	96.10	56
Lambs, Cwt .....	128.00	43
Sheep, Cwt .....	47.70	51
Eggs, Doz .....	1.25	57
Turkeys, Live, Lb .....	.808	50

— Indicates that data is not available.

Source: Agricultural Statistics Board, NASS USDA.



## PREPARED STATEMENT OF LARRY JONES

Mr. Chairman and members of the Committee, thank you for inviting me to testify before this important hearing. My name is Larry Jones and I am president and founder of Feed The Children, a not-for-profit hunger relief organization based in Oklahoma City, Oklahoma. In the 12 years since its founding, Feed The Children has provided food, medicine and other supplies to needy people throughout the United States and in 60 countries around the world.

I only wish I could come before you today—World Food Day—and say we are close to solving the problem of hunger. But sadly, as you know, that is far from the case. Otherwise, the demands on our organization and others like it would not be as great as they are.

Each day Feed The Children programs feed 70,000 people through a network of 2,000 feeding centers, food pantries, and American Indian reservations. Since 1979 we have distributed more than 70 million pounds of goods to the needy in our own country and in other nations. Just last week I was in Moscow to help distribute a plane-load of food and medicine donated by my organization and others to the people of Russia. That is a nation facing food shortages so severe that there is only enough to feed most of its citizens for the next six months.

Here in the United States the demand for emergency food assistance has perhaps never been greater.

The Food Research and Action Center recently reported that more than one in four children under the age of 12 in America are hungry or at risk of becoming hungry.

And, according to the National Commission on Children, one in five children in the United States lives in a family with an income below the federal poverty line and nearly 13 million children live in poverty—more than two million more than a decade ago. Meanwhile, the government is paying our farmers not to produce to their fullest capacity.

In fact, even in times when food stocks are abundant, taxpayers spend millions of dollars to store billions of bushels of corn, wheat, soybeans and rice. It is incomprehensible to me why we choose to throw our money away like that while millions of Americans are going hungry.

We must do something to feed hungry children. We must constantly search for new and better ways to help the ever increasing number of homeless and hungry people in the United States. There is absolutely no reason for one child to go hungry in this great nation.

That is why Feed The Children is pleased to give its wholehearted endorsement to the Crop Sharing Hunger Relief Act. Passage of this legislation would almost certainly result in a "win-win" situation for all concerned.

First, it will provide tax incentives to individuals for donating food to nonprofit organizations for distribution to the needy. This will help the hungry by virtually guaranteeing a steady source of food. And it will enable American farmers to use their bounty to feed the hungry and homeless and be part of the solution to hunger in America.

This is a remarkable idea that could revolutionize the feeding of hungry children. It could mean that millions of children will not have to go to bed hungry. It could also save millions of lives in America and overseas.

How can we possibly lose?

The government in recent years has initiated some new programs to help the needy. But it is not nearly enough.

One such program—one in which we have participated in since its inception—is the U.S. Department of Agriculture's agricultural commodity distribution program under the Hunger Relief Act of 1988. Our organization uses its own resources to process and transport USDA-owned raw commodities to government-approved food distribution centers.

Every month we receive more than 100,000 pounds of surplus corn and wheat from USDA. Using our own trucks, we transport the corn and wheat to companies that mill the grain at near cost. We then truck the processed product to the Oklahoma Department of Human Services for distribution. Through the program more than 157,000 five-pound bags of corn meal and enriched wheat flour are distributed to hungry Oklahomans each year.

The USDA program has helped thousands of families. The problem is that the surplus of USDA-owned commodities available for distribution to the needy continually fluctuates and is now at an all-time low. This, unfortunately, has occurred at a

time of a recession that has forced millions of Americans onto the unemployment lines and in dire need of help.

The Crop Sharing Hunger Relief Act promises help for thousands more by creating a new vehicle that will ensure a regular and consistent flow of agricultural products to the needy.

Feed The Children stands ready to help assure that these additional supplies will get to the destitute people who so desperately need them. This legislation will add balance to the delicate supply and demand for food.

We must begin to share our bounty with our friends and neighbors who so desperately need help now.

In 1914, the Byelorussian poet Maksim Bahdanovich wrote:

"So much of wealth and beauty everywhere  
While people are starving and weary  
Of poverty, of ignorance  
Because of boundaries, because of barriers."

We can break down those barriers with compassion and mount an aggressive campaign to eliminate hunger throughout the world.

I know that in the legislative process there will be those who say, "On the one hand, if we do this it will help, but on the other hand . . ." That reminds me of something Harry Truman once said after receiving some "on the one hand, on the other hand" advice from his economic advisors. Mr. Truman remarked: "Would someone please send me a one-armed economist."

Today we need a one-armed samaritan with our purpose—ending hunger in America and the world.

Thank you.

PREPARED STATEMENT OF KATHLEEN KERSEY

S. 1826, the Crop-Sharing Hunger-Relief Act

The information and observations in the following testimony are based on the experiences of staff and Board of the Food Service Center, Inc. Although our Food Bank is a member of Second Harvest National Food Bank Network, my comments concerning hunger needs and S. 1826 reflect only the perception of the Food Service Center and our experiences in South Dakota. They are not meant to be made on behalf of the Network. Nonetheless, the experiences in South Dakota parallel those reported by food banks throughout the nation. It appears that Second Harvest will enter written testimony to this Subcommittee on S. 1826 in the coming days.

I. Demographics and Poverty in South Dakota

The population of South Dakota is 713,000, with 150,000 in western SD and 563,300 in eastern SD. The population in urban areas grew 7% from 1980 to 1990, but remained level in rural areas. We live in roughly 96,000 square miles of land. Slightly more than 100,000 of us live in Minnehaha County, most of us in Sioux Falls, the largest city in the state. Another 75,000 live in Rapid City, and the rest in rural communities. Seven percent of our population is made up of Sioux Indian people who, for the most part, live on nine reservations, and who, for the most part, live in poverty equivalent only to the very poor in Third World nations.

The poverty level of the state's population is at 17% according to "A Graphic Summary of South Dakota" from the Census Data Center of the Department of Rural Sociology at South Dakota State University. According to the Sourcebook of Zip Code Demographics, 7th edition, 1990 information, 49.5% of the households have annual incomes under \$25,000; and the state ranks 50th in annual median household income. Rural areas of the state, on Native American reservations especially but not exclusively, have high poverty levels due primarily to low farm/ranch incomes and high unemployment rates.

The state Department of Labor reports an unemployment rate of 4%, but according to The Sourcebook of Zip Code Demographics, in 1990, 61.6% of the state's labor force participated in employment.

Medicaid covers only 40% of those below the Federal level of poverty. Half of all Medicaid is spent on the elderly for long-term (nursing home) care, leaving many other families out of assistance because of fund depletion. Nationally, 5% of Americans under the age of 65 are uninsured. However, in South Dakota, 56,000 people in our state under age 65, approximately 8% of the population, did not seek needed health care last year because they could not afford it. The national average is 5.6%.

Sioux Falls is a stable community, but many rural communities, especially on reservations, are not, as their economies are crumbling. Family units and church involvement continue to be very influential factors in South Dakota communities. The crime rate is rising, but is still well below the national average. \* The rate of children born to unwed mothers is at 24%, close to the national average. The rate tends to be higher on reservations than in the rest of the state. The number of single parent headed households receiving government assistance in SD was approximately 10,000 in 1990, with nearly 20,000 children involved.

\* Statistics preceded with an asterisk are very close to national averages.

The number of uninstitutionalized persons in the state diagnosed and receiving service because they are suffering some form of mental illness was 1,800 in 1990. Another 400 are estimated to have been undiagnosed and untreated. Most of the people, treated or untreated, receive some sort of government assistance and are low income.

Approximately \* 40% of the households served in pantries last year had at least one person employed, 21% full-time and 19% part-time.

Approximately \* 42% of the people served with Pantry food boxes are under the age of 16, and 7% are elderly. The percentage of children and of elderly served by all the non-profit, meal-providing agencies using Food Bank products are both 28%.

Single parent, female-headed households served through the Pantry accounted for 30% of clients, while the same category of households served through Food Bank agencies accounted for 31% of clients.

In 1990, the Food Bank program provided 25,000 low-income South Dakotans with food through pantries and meal-providing agencies. We project that 30,000 persons will be helped in the fight against hunger in 1991.

## II. Hunger in South Dakota

A conservative estimate by the Food Research and Action Center's Community Childhood Hunger Identification Project (CCHIP) of hunger among children in South Dakota is 17,000. Because of the contacts we have with pantries and meal programs for low income children, in this urban community and in rural areas of our state, including the Native American reservations, we believe that the number is probably double that amount.

We conducted a survey of 105 of the 422 families served through our Pantry in May, 1990. Forty-three percent of the people in these families were 0 - 18 years of age. In response to a question asking about skipping meals due to a lack of resources to purchase food, participants in the survey reported that 29% of the children in these households had had to skip meals. (In addition, 60% of the pregnant women had had to skip meals occasionally and 49% of all adults.)

In surveys done from time to time with the agencies served by our Food Bank, consistently the agencies indicate their need for fresh products such as meat, milk, and fruits and vegetables, and for basic food products, such as pastas, canned fruits and vegetables, cereals, fruit juices with vitamin C, and soups.

Some comments from the May, 1991, survey of Food Bank agencies:

"Shopping at the Food Bank has helped cut our food cost immensely."  
 "If it wouldn't be for the Food Bank, we couldn't operate. It really cuts the food cost for us."

Programs such as Children's Inn, which shelters women and children who are victims of domestic violence, have seen burgeoning numbers of victims in need of their services in the past several months. In order to stay within their operating budget, this agency depends heavily upon the Food Bank to be able to offer their program to the growing numbers of people, while continuing to provide nutritious meals.

\* Statistics preceded with an asterisk are very close to national averages.

Throughout the nation, more and more people are using the services of non-profit agencies. Most of these people are low-income. Meals are an important part of the programs for them. As the numbers of people needing help grow, so does the dependence of the agencies upon food banks.

True as this is for meal-providing agencies in urban areas, it is even more intensely so in rural areas. In our state, the need is greatest on the reservations. In May of 1990, a member of our Board of Directors and I went to visit a pantry on the Rosebud Reservation. There was nothing on the shelves but several cans of cocoa. There were no resources available for them for the summer. As Thanksgiving and Christmas arrive, many churches and organizations send food and clothing for distribution. However, summer is the most critical time

of need, especially among children. During the 9 months of the school year, they have school breakfast and hot lunch programs to count on for meals. In summer, there is even more strain on the food budget with the children at home, and consequently more reporting of hunger and skipping meals.

Unlike pantries in more urban areas, pantries in rural areas do not have a base of donors to keep the shelves filled. There are not enough people with sufficient resources to make such donations. Large numbers of people are more eligible to use the pantries than to give to them.

The cost of food in small rural grocery stores is much higher than in larger communities. Thus, food stamps, social security checks, other government assistance, and employment checks will not stretch as far for people in rural areas. In South Dakota, a community of 15,000 or more may be more than a hundred miles distant from many small towns, so shopping in a larger store is not an option.

### III. Observations concerning S. 1826 and hunger in South Dakota

Second Harvest has in the past year and a half embarked upon a program called Value-Added Processing with a variety of producers of raw products. For instance, Stokely's and Pillsbury's both process certain vegetables that are in great abundance and make them available to food banks at cost, often around \$.10 per can. (Our Food Bank is on a waiting list to be included in this VAP program.)

If a product like surplus wheat could be ground into flour and then made into pastas, it would be a very welcome product for our program. Soybeans could be made into protein supplements or substitutes.

Right now, the biggest hurdles we would have in accepting donated surplus commodities is finding a relatively close place for processing so that the cost of transporting isn't prohibitive.

Some other resources that we have been exploring that do not seem to be a part of S. 1826 are a cooperative effort with the Fargo, ND, food bank to get second grade potatoes from farmers in North and South Dakota and have them processed into dry flakes, and a proposal from the Meat Processors Ass'n in SD to solicit downed animals from farmers and ranchers for processing into ground meat and donating to the Food Bank.

This second project has great potential. Unfortunately, farmers and ranchers who donate animals they have raised to charitable agencies like our Food Bank cannot take a tax deduction for the animal. Even a downed animal will bring \$100 from rendering companies for the carcass.

It would be a great incentive for farmers and ranchers who wish to give meat to the Food Bank if they were able to get some kind of return for their contribution. The donation of downed animals to hunger relief agencies is a much better use of the meat than selling them to rendering companies. Perhaps this could be a part of S. 1826, or a separate bill if that is not appropriate.

To sum up, I believe S. 1826 would prove to be of much help in expanding our Food Bank service of food to people who are in need, struggling to feed their children and themselves. This is even more true for many food banks in other parts of the nation than for us, but we would hope to be able to get raw products to whatever processors are near, and to work cooperatively with other food banks and with Second Harvest in sharing products.

I would urge this subcommittee to carefully consider the testimony of the hunger agencies and the potential donors of products as the final draft of this bill is drawn and voted upon. More and more of the people of this land suffer hunger. This bill is not designed to solve the problem, but no child, no adult in this nation of great resources should ever have to go hungry.

#### PREPARED STATEMENT OF HOWARD F. LYMAN

Thank you, Mr. Chairman. On behalf of the 250,000 member families of the National Farmers Union, let me start by expressing our appreciation for your efforts on behalf of family farmers and for the opportunity to testify today.

As you know, Mr. Chairman, most of us have been working over the last few years to improve prospects for farm income -- a necessary prerequisite to any discussion of income taxes. The combined effects of the 1990 farm bill, the 1990 budget summit, the U.S./Canadian Free Trade Agreement, and a regulatory policy that allows unprecedented levels of concentration and integration in food production and processing have left family farmers with their backs against the wall. Even in a year in which many parts of the country have faced natural disasters and yields have been threatened in a variety of crops, commodity prices have stayed too low. Dairy farmers have been on a price rollercoaster that has left many of them in dire financial straits. Even the beef market, which has been supporting the Department of Agriculture's claims in recent years of record farm income, seems to have taken a turn for the worse.

At the same time, the rest of the economy has been sliding into the recession that has affected agriculture for nearly ten years. Taxpayers have been losing their jobs, their land values have dropped, basic necessities like health insurance are beyond their reach, and retail food prices have stayed constant despite falling prices at the farm gate. I am pleased to be here today to speak in support of The Crop Sharing Hunger Relief Act, because the National Farmers Union strongly believes that this legislation could benefit both constituencies.

By building demand, the legislation could firm up prices for the agricultural commodities purchased by taxpayers seeking a deduction. This would not only benefit the producers of those commodities, it would save hard-earned tax dollars. Several commodity programs operate by paying farmers the difference between the market price and a target price that was originally set up to approximate a fair return to producers. Past deficit reduction efforts have eroded the target prices in all of these programs. Finally, we have before us a proposal that can save taxpayers money and, instead of reducing farm income in the process, actually give producers firmer ground in the marketplace.

Another reason why this legislation is so important is that it restores credibility to the concept of "parity", an idea which the Department of Agriculture and multinational grain traders

have argued is no longer relevant to today's agriculture. The attitude that having the agricultural economy be "on par" with the rest of the economy is irrelevant is symptomatic of an overall disregard for the well-being of those who are truly the only creators of new wealth in this country. We have seen the results of relying on paper-shuffling for an economic foundation. It has brought us capital-draining leveraged buyouts, the savings and loan bailout, the collapse of the junk bonds market, and so on. We are seeing the results of relying on a service-based economy, in which workers who once earned a fair living producing goods from raw materials now fry each other's hamburgers for \$5.00 per hour with no benefits. One need not be a farmer to realize that nothing grows from the top down. It is time to get back to basics -- to restore profitability to industries such as agriculture, where the new wealth of each year's crop provides renewed opportunities for jobs, trade, and even income tax revenues! Parity is an essential tool for measuring our success.

This legislation could also help American farmers reduce their own tax burdens and, in the process, reduce the competitive disadvantage they face in world trade. Much has been said about "leveling the playing field" among agricultural exporters by reducing "trade distorting subsidies". But, while negotiators at the General Agreement on Tariffs and Trade argue over one another's domestic farm programs, competitiveness issues such as tax structure remain unaddressed.

The Agricultural Experiment Station at Oregon State University recently issued a study titled, "An Analysis of Competitive Advantage Between the United States, Canada, and Australia for Wheat Production". I have attached the executive summary of that study to my testimony today. What the Oregon State researchers discovered is that the Australian producer on a representative wheat farm had a \$7,000 advantage over his American counterpart in terms of net farm income. The Canadian farmer, despite our free trade agreement, competes with a \$5,500 net farm income edge over the American farmer. Further, it seems that the U.S. tax structure is particularly disadvantageous to small and medium-sized farms. Though this is only one example, the National Farmers Union believes that the question of tax fairness must be addressed before American farmers are stripped of farm programs and told to compete on their own for world market share. We would urge this Subcommittee to hold hearings on this question soon, especially before negotiations on any further free trade agreements are concluded.

As far as the specifics of The Crop Sharing Hunger Relief Act, National Farmers Union would suggest only a few changes. First, we feel that there ought to be some requirement for the Secretary of the Treasury to publish the list of commodities eligible for the program. Second, we urge you to add to the definition of qualified contributions those contributions made to organizations described in Internal Revenue Code section 501(c)(5). Finally, we would urge you to reconsider excluding estates from participation in the program.

In the end, one cannot help but conclude that this legislation is simply the right thing to do. We speak of commodities in surplus, but the truth is that there is no surplus until everyone who is hungry has had enough to eat. It is not a question of overproduction so much as it is a question of the lack of means to buy food. To the extent that this bill would enable some people who aren't getting enough to eat now to get more, it is worth doing, period. Given that some people need a little more incentive than altruism, this legislation could help offset the decline in charitable giving that has accompanied cuts in charitable deductions.

Thank you again for the chance to express our views. I would be happy to address any questions you might have at this time.

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## **An Analysis of Competitive Advantage Between the United States, Canada, and Australia for Wheat Production**

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Agricultural Experiment Station  
Oregon State University

### **EXECUTIVE SUMMARY**

A great deal of effort has been made to eliminate barriers to trade between countries throughout the world. The GATT negotiations represent perhaps the most well-known example of trade negotiations, although numerous other multilateral agreements have been made between countries throughout the world. The idea behind these negotiations is to reduce or eliminate distortions by government on trade between countries. In agriculture much of the focus has been on eliminating direct subsidies to farmers, in the belief that this approach will eliminate trade distortions.

The principal argument made in this paper is that elimination of traditional government farm subsidies alone will not assure that countries exporting agricultural products will be competing on a "level playing field" in the trade arena. In particular, government tax policy and social programs both influence the level of return a farmer needs to remain in business. Any move by government to lower taxes or raise government social services will have much the same impact on trade competitiveness as an increase in farm program subsidies. Consequently all three areas (taxes, social programs, and farm programs) should be considered when in trade negotiations.

To demonstrate the relative importance of these three areas on farm profitability (and, hence, competitiveness), representative wheat farms in New South Wales, Australia, Alberta, Canada and Montana were analyzed under the 1991 tax policies and social programs of each country. A detailed comparison of the government farm programs, tax policies, and social programs was presented to provide the reader with a better understanding of the results.

The base scenario results suggested Australian farmers have a \$7,000 advantage (or 20% of net cash farm income) in the tax and social program areas over their U.S. counterparts. The Canadian farmer, in turn, had a \$5,500 advantage (or 16% of net cash farm income) over the U.S. farmer. The major factors handicapping the U.S. farmer were high social security taxes and the requirement that he purchase worker's compensation insurance.



Subsequent sensitivity analyses suggested that the tax and social program advantages favored Australia for small and medium-sized farms, with much of the advantage disappearing for large and corporate farms. Canadian farms had a combined tax and social programs package that was preferred to the U.S. regardless of the farm size or business organization. The large corporate U.S. farms came closest to being competitive with their Australian and Canadian counterparts. The results did not change a great deal when North Dakota and Saskatchewan tax policies were substituted for Montana and Alberta. Tax and social programs for children were most generous in Canada and least generous in the United States.

Although the results were limited to a case situation, they do provide evidence of the importance of tax policies and social programs on competitiveness. For small and medium-sized farms, for example, Canadian tax and social program advantages were more important in determining trade competitiveness than government farm program and cost of production advantages favoring the U.S. farmer. Further work is needed to extend the research findings to the aggregate level, as well as other commodities and countries.

Table 21. Comparison of 2,100 Acre Montana Farm Assuming No Debt for Farm Operator

1991 Expected Values	Australian Taxes	Canadian Taxes	U.S. Taxes
Crop Receipts	72,185	72,185	72,185
Government Payments	10,377	10,377	10,377
Other Farm Income	2,218	2,204	2,403
Total Cash Receipts	84,780	84,766	84,965
	37,590	37,645	39,386
Net Cash Farm Income	47,190	47,121	45,579
Fixed Costs	11,316	11,316	11,316
Net Farm Income	35,874	35,805	34,263
Tax Payments			
Federal	6,084	4,231	3,521
State	0	2,362	1,802
Sales/Fuel	2,055	1,946	324
Pension/Medicare	361	1,419	4,797
Property	912	1,700	2,297
Total	9,412	11,658	12,741
Net Family Withdrawals	16,096	16,942	19,416
Change in Net Worth	10,366	7,205	2,106

### Summary and Conclusions

The objective of this study was to estimate competitive advantage for case farms in Australia, Canada, and the United States. The particular focus of this analysis was on those factors influencing competitive advantage that have not normally been considered in trade negotiations, including tax policy and government social programs. A representative farm was developed for each country and the tax and social programs of each country were

analyzed using these representative farms. Sensitivity analyses were conducted to provide greater insight into the results.

The results suggest that tax and social programs in Australia provide that country's farmers with a competitive advantage in trade, particularly for small and medium-sized farms. The only exception is large, incorporated farms, where U.S. and Canadian tax laws eliminate Australia's advantage. Canadian tax laws and social programs also generally provide competitive advantage to its farmers vis-à-vis the United States. Canadian tax and social program advantages are smallest for large nonincorporated farms, but the greater profitability of incorporated farms suggests this type of farming organization is probably rare in both countries.

Australia's tax laws definitely favor a husband-wife business organization. Corporations in Australia are only desirable from a tax standpoint if the farm is relatively large. Canadian tax law also favors a husband-wife partnership for small operations, but the corporate form is much more desirable for large farms. The corporate form is generally preferred in the United States, particularly for moderate and large scale businesses.

Australian and Canadian tax laws seem most favorably disposed toward self-employed individuals (such as farmers) and large businesses. The Australian tax burden falls much more heavily on moderate income salaried individuals than is the case for the United States and Canada. The U.S. tax law, on the other hand, seems to levy taxes relatively more heavily on the self-employed businessman than Canada and Australia. United States tax law also does not provide the tax breaks for low income persons that are available in the other two countries. Salaried workers seem to fare best in the United States than other countries. Differences in taxes exist between states and provinces, but these differences seem less important than the differences between countries.

There was a clear advantage to farm under U.S. government farm programs and costs of production versus those in Canada. This advantage was particularly apparent for large farming operations. The high costs imposed by the Canadian Wheat Board on the case farm are largely responsible for the noncompetitiveness of Canadian production costs. In fact, these costs almost completely offset the competitive advantage provided by the Canadian farm programs. Caution must be exercised in generalizing this result, however. Quite likely farmers in Saskatchewan and Manitoba receive a market price that is above the level they would receive if there was no marketing board.

Canada provides the best set of benefits for families with children. The United States provides the worst set of benefits. The relative rankings given in the base results did not change when farm debt was eliminated.

A number of assumptions have been made which are critical to the analysis. Cost of living estimates were tied to the farm, rather than the government tax and social program scheme. No doubt this is not completely correct because some living expenses are influenced by government policies (e.g., tariffs on imports). Further investigation is needed to determine what effect government policies have on living expenses.

An important assumption under both Australian and Canadian tax policy was managing the tax-exempt funds to maintain an approximately level expected fund balance. This assumption is particularly important for the Australian tax scenarios because the beginning fund balance was so low relative to the limits placed by government on total balance. The Australian farmer can save a great deal in taxes, for example, by allowing the fund to accumulate reserves over time. In addition, a larger fund reserve provides more flexibility in reducing taxes while maintaining a constant fund level.

Further work is needed to compare tax policy in these three countries with that in other major wheat exporting countries, particularly Argentina and the EC. For example, the competitive disadvantage suggested by the PSE in Table 1 for Argentina may not be nearly that large, because most Argentines do not pay any income taxes.

Other commodities should also be analyzed. Livestock enterprises, for example, are treated differently for tax purposes and so should be examined in a future study. Other types of cropping enterprises (such as vegetable production) may differ substantially in their mix of land, capital, and variable input use, generating substantially different results than those presented here.

## PREPARED STATEMENT OF DAVID SENTER

Thank you, Mr. Chairman and members of the subcommittee. It is a pleasure to be here on behalf of the family farmers and ranchers from across this country that make up the American Agriculture Movement. We pledge our support for S. 1826, the 1Crop Sharing Hunger Relief Act of 1991."

The greatest blessing we have in the United States is our ability to produce more food than we need. It is a sad fact, however, that the surpluses we are blessed with have an enormous negative effect on farm prices. These surpluses lower prices to America's farmers and force them off the land by the thousands, while many of the world's children go to bed hungry by the millions. S. 1826 makes the connection between the surpluses and the hungry.

The program can be local or international. It is, as it should be, a private sector initiative and therefore will not require a huge government agency to administer it.

Any loss in tax revenue should automatically be offset by reductions in the need for farm program spending. When bushels and pounds of surplus commodities are purchased and donated to charities, they do not go under the CCC loan program. The government does not have to assume the cost of loans, storage and maintenance. And best of all, someone gets fed.

A very important feature of the legislation is the use of the "parity index." It will assure that the dollars will flow to the lowest priced commodity in surplus because the taxpayers will receive the greatest deduction when they purchase the commodity with the lowest price in relation to the parity index. This aspect of the legislation will help farmers by removing the commodity of greatest surplus and will provide the most food to those in need.

Farmers produce food to feed people, not to set in warehouses and depress prices. This legislation will allow us to go about what we do best, producing, while at the same time involve more individuals in providing for the hungry. We will all sleep better knowing that this nation's blessing of surplus food is not rotting in some warehouse, and that fewer people go hungry.

The 19th chapter of Leviticus says "*And when ye reap the harvest of your land, thou shalt not wholly reap the corners of thy field, neither shalt thou gather the gleanings of thy harvest. And thou shalt not glean thy vineyard, neither shalt thou gather every grape of thy vineyard; thou shalt leave the for the poor and stranger:*" When this passage was written there were probably 90% or more of the people living on the land. Today, in this country, there are less than 2% of the population left on the land. Farmers will do their part to make sure the poor get the corners of our fields. But we need a little help from the other 98% of the American public. The Crop Sharing Hunger Relief Act of 1991 will make that help possible.

Thank you again for the opportunity to present our views.

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## COMMUNICATIONS

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AGENCY FOR INTERNATIONAL DEVELOPMENT,  
*Washington, DC, Oct. 31, 1991.*

Hon. TOM DASCHLE, *Chairman,*  
*Subcommittee on Energy and Agricultural Taxation,*  
*Committee on Finance,*  
*U.S. Senate,*  
*Washington, DC.*

Dear Mr. Chairman: As you requested, the Agency for International Development (A.I.D.) is pleased to be able to submit testimony for the record of your Subcommittee's October 16th hearing on S. 1826, the Crop-Sharing Hunger-Relief Act.

A.I.D. commends and wishes to encourage the spirit and purpose of this legislation—to encourage private U.S. citizens to help the unfortunate people around the world receive the nutrition they need to lead productive lives. Volunteerism is an important vehicle in this effort and A.I.D. is proud of its partnership with private and voluntary organizations (PVOs) in world-wide development activities.

Again, we are pleased to be able to contribute to your hearing and please do not hesitate to contact us if we can be of further assistance to you or your Subcommittee.

Sincerely,

R. RAY RANDETT, *Assistant*  
*Administrator for Legislative Affairs.*

Enclosure.

### STATEMENT OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, the Agency for International Development appreciates the opportunity to address proposed legislation that would propose to provide tax deductions to individuals when donating surplus agricultural commodities to eligible not-for-profit organizations to be used in providing relief efforts to those in need because of drought, disaster or famine.

A.I.D. commends the spirit and purpose of the legislation. We sincerely believe that in an increasingly interdependent world, U.S. citizens have a vital role to play in assisting developing countries achieve sustainable development and ameliorate human suffering.

Over its 30 years of existence, A.I.D. has relied heavily upon non-profit organizations (called Private and Voluntary Organizations (PVOs) when engaged in international efforts) to assist and implement our overseas programs. By law, these organizations must receive 20 percent of their funding from private sources to be eligible for A.I.D. funding. Thus, we as an Agency have a vital interest in helping our "implementing partners" receive additional private resources from individuals here in the United States.

However, A.I.D. would like to raise several concerns related to the proposed legislation that we believe should be addressed in a substantive way. These concerns, of course, are applicable only to surplus commodity donations to non-profit organizations which might be used for direct feeding, distribution or sale overseas.

Our comments can be divided into 3 broad categories: (1) costs related to the transportation, storage and administration of these commodities; (2) the compatibility of programs using these commodities with the current Public Law 480 (Food for Peace) programs (that this year will receive over \$1.5 billion in commodities and administrative funding from the Federal government); and (3) the applicability of current U.S. commitments to international agreements.

*Costs Related to Transportation, Storage, and Administration.* Our first concern centers on the impact that the increased flow of commodities to PVOs will have on the recipient organization. The overhead costs associated with PVO food aid distribution costs are substantial. The cost associated with transporting bulk or bagged commodities, including ocean freight, is a significant percentage of their total value, especially in small lots. These are usually many times larger than the market-value of the commodities themselves. The availability and cost of storing commodities until they are distributed or sold must also be considered. Most non-profit organizations do not have the level of resources to cover these and administrative costs readily available. A.I.D.'s limited resources for assisting non-profit organizations with overseas freight costs are oversubscribed now and, therefore, insufficient to offer any amount of credible assistance in this area.

*Compatibility with Food for Peace Legislation.* Starting in Fiscal Year 1992, under the Title II Emergency and Private Assistance Food Aid Program authorized by Public Law 480, A.I.D. is required to ship at least 1.950 million metric tons of agricultural commodities for overseas regular and emergency food programs. Of this, 1.475 million metric tons must be for non-emergency programs sponsored by U.S. PVOs or the World Food Program. The mandated levels increase by 25,000 metric tons each year through 1995. A substantial percentage of emergency programs are also sponsored by PVOs. We mention this only because we are concerned that the absorptive capacity of the PVOs appears to be already stressed. It is probably unlikely that they can absorb more food without undermining A.I.D.'s ability to meet these P.L. 480 mandates.

*Compatibility with U.S. Foreign Assistance Policies and Development Objectives.* Under the current food aid legislation, issues such as disincentives to local production and integration with other foreign assistance policies and strategies must be considered and addressed before providing food assistance to those in need. A.I.D. is concerned that, since there is no reference to other foreign assistance or food aid legislation, there is no assurance that the importation and uses of donated food would not result in an unnecessary conflict with the usual marketing of U.S. agricultural commodities overseas or the agricultural production and marketing of crops produced in the countries which are to receive the donated commodities.

In many developing countries, the agricultural sector may constitute 80 percent of the work force. Because of inappropriate policies or restrictions on the distribution of locally-grown agricultural goods, the farm sector is fragile during the best of times; during droughts and disasters, agricultural commodity prices and production play an important part of determining the availability of food stuffs. During non-emergency situations, the agricultural sector of a country can experience dramatic price and income fluctuations because of the import of commodities into the country. The timing of the delivery of these commodity imports, the disposal or distribution of the commodities and the type of commodity are vitally important if the agricultural sector of the country is not to be disrupted, on-farm incomes are to be maintained and local production not undermined.

A significant new mandate was added to the P.L. 480 program during the 1990 farm bill which, from a development viewpoint, makes great sense. A new provision of P.L. 480 requires that food assistance programs be completely integrated with the development priorities of the country where the commodities are to be donated, and, to the extent practicable, coordinated with other donor activities to result in a coherent and comprehensive package from diverse and numerous donors. Meaningful flows of agricultural commodities which might be programmed outside of this coordination mechanism may not address the countries self-described development needs.

A further concern, in addition, arises if significant amounts of commodities were shipped to one country. The Conventions of the U.N.'s Food and Agriculture Organization Consultative Subcommittee on Surplus Disposal, of which the United States is a signatory, requires the U.S. to consult with potential other supplier countries on the intention to supply, and, to object to the provision of food if that would unduly affect normal commercial markets of the other donor country. It is possible that sizable donations provided through this proposed legislation would run at cross purposes with this international agreement that is intended to monitor and safeguard world agricultural markets.

A further trade concern arises from the donation mechanism which would be utilized under this legislation. Agricultural commodities donated to PVOs under this legislation would presumably be provided outside of the normal government channels. Such donations would complicate the monitoring of usual marketing requirements under the FAO's Principals of Surplus Disposal. When placed in the context of the ongoing trade negotiations of the Uruguay Round, this monitoring would take

on an added importance. Currently, parties agreeing to specific commitments of trade policy reform under an Uruguay Round agreement would not be allowed to use food aid as a means to diminish reform obligations. Further, negotiators in the Uruguay Round are considering provisions which would preclude the use of a given country's tax code to sidestep reform commitments. This proposed legislation would need to be scrutinized to see if it would meet these U.S. positions at these important trade talks.

As a final note, we would like to point out that this legislation would raise significant domestic tax-related issues which would need to be addressed such as the loss of revenue to the Treasury, the subsidy factor created by the use of parity pricing in valuing the deduction, and the general inconsistency with Administration efforts to move the U.S. agricultural sector toward free market principles. A.I.D. would also urge the subcommittee to work closely with the Departments of Treasury and Agriculture to address these important concerns.

Thank you for the opportunity to comment on the proposed legislation. We would be glad to respond to questions from the Committee.

## STATEMENT OF THE CATHOLIC RELIEF SERVICES, USCC

### COMMENTS ON S. 1826, THE CROP SHARING HUNGER RELIEF ACT

Catholic Relief Services has been asked to comment on S. 1826, the Crop Sharing Hunger Relief Act.

S. 1826 has a commendable goal—to feed the hungry through the donation of surplus agricultural commodities. While we appreciate the goals and motivations behind this legislation, based on our 37 years of experience with food aid, we believe that the legislation as written is not suitable for the types of food aid programs that we carry out internationally.

Catholic Relief Services (CRS) was founded in 1943 and serves as the overseas humanitarian aid and development agency of the United States Catholic Conference. It serves people in 70 countries on the basis of need.

CRS' total program value for 1990 was \$227 million, \$89 million of which was donated by the United States government in the PL 480, or Food for Peace program. Another \$41 million was donated by the United States government to reimburse CRS for overseas freight expenses, primarily for the Food for Peace program.

Food for Peace has been one of the cornerstones of U.S. policy toward the developing world for 35 years. Countless people around the world have benefited from the generosity of the American people through the Food for Peace program.

CRS has been involved with PL 480 since the program's inception. We were active in supporting the legislation in 1954, and in subsequent years have been the largest private agency using Title II commodities.

As the overseas relief and development agency of 53 million American Catholics, CRS represents an important segment of the expression of historic national will to use American food in relieving and preventing hunger. In the course of our experience with food assistance programs, most of us have come to see food as a resource which can and ought to be used in a variety of ways that not only help to feed the hungry but also to promote the longer term development of the world's poor, to enable them to better provide for their own needs.

We believe that the Crop Sharing Hunger Relief Act does not address a number of concerns regarding the administration of food aid programs. It may be helpful to the Committee if we explain how Food for Peace and similar programs are managed:

Food commodities donated by the United States government through the PL 480 program are managed in a specific, routine manner.

Our staff in the field prepare multiyear operational plans (MYOPs), usually for three to five years, that dictate how food assistance will be programmed in terms of levels of beneficiaries, types of interventions and expected outputs. The type and quantity of food commodities for programs such as Food-for-Work and Maternal Child Health (MCH) are technically approved with the MYOP but actual allocation approval is on an annual basis. Even the emergency programs are carefully programmed when we know in advance that a famine may be imminent. The emergency programs are, of course, more flexible in their design.

The reasons for the careful planning are fourfold:

- CRS must maintain strict standards of accountability, thus thoughtful planning and documentation are essential;

- The agency can only obtain commodities that are available in advance through the PL 480 program. We must order the food in advance;
- Shipping commodities, for example, from the Nebraska wheat fields to the Ethiopian plateaus can take many months, and if the food pipeline is interrupted programs can be severely disrupted.
- Our counterpart organizations running the programs need to know with some certainty how they can proceed.

Because shipping commodities long distances over the high seas is extremely costly, large quantities must be shipped together. Typically, this means that thousands of metric tons of cargo destined for a developing country or several countries are transported at once. Congress has recognized the enormous expense incurred in shipping these bulk quantities, and provides funds in the Farm Bill to reimburse the private voluntary organizations for these costs.

In some regions, especially in Africa, transporting the commodities is a particularly difficult financial burden. Last year's Farm Bill included a funding provision to assist in supporting these costs.

Neither shipping nor inland transportation and associated costs are addressed in the proposed bill.

Moreover, the proposed legislation does not provide for the donation of processed commodities. Food for Peace commodities often consist of processed food. While this omission may not necessarily be a problem for overseas programs because the beneficiaries may prefer more familiar, unprocessed commodities, it may present a burden for domestic organizations that feed hungry Americans used to processed food.

Because Food for Peace is a program that donates a perishable commodity—food—rather than financial resources, it requires stringent and costly management. The smaller amounts of agricultural commodities to be provided through S. 1826 would also require careful management. We question whether managing unprogrammed, small amounts of food assistance could be cost-effective for international agencies that must demonstrate their accountability when they deal in food aid.

Given the logistics and long term planning considerations of overseas food assistance, the program outlined in the legislation may be better suited to domestic programs, such as Share.

One possible option for utilizing these donations for overseas programs would be to allow donors to contribute the donation directly to the Commodity Credit Corporation (CCC), which purchases the commodities and distributes them to PL 480 program participants. The CCC could add the donated commodities to their stock of already-purchased commodities for inclusion in the Title II PL 480 programs.

Thank you for allowing us to comment on your laudable efforts. We appreciate your interest in assisting the poor overseas, and we welcome additional efforts on their behalf.

## STATEMENT OF THE NORTH AMERICAN FARM ALLIANCE

It is with some regret that I offer testimony in opposition to this proposed legislation. My regret is because it is seriously proposed by some of the people in the farm movement that I consider my friends and colleagues. But this proposal will not solve either the massive farm or hunger problem.

The Crop Sharing Hunger Relief Act proposal appears to be based on the misguided theory that by giving tax credits to those who would then give food relief to the poor and that in turn would remove enough surplus farm commodities from the market to raise farm prices. This is a diversion and sends farmers off chasing rainbows.

The basic contradiction of the farm problem is that farmers cannot price what they buy or what they sell. The marketing system is owned and operated by corporate agribusiness. Supply and demand is a fairy tale, especially today where huge conglomerates control up to 95% of the market and where anti-trust laws are almost completely ignored.

Hicks in "Populist Revolt" quotes a farmer before the turn of the century on how the marketing system works for farmers:

"We went to work and plowed and planted, the rains fell, the sun shone, nature smiled, and we raised the big crop that they told us to, and what came of it? 8 cent corn, 10 cent oats, two cent beef and no price at all for butter and eggs - that's what came of it. Then the politicians said that we suffered from over production."

Farm prices until 1933 were always a boom and bust ending up with 10 cent corn, 2 cent hogs and 5 cent beef as the so-called free market in 1932.

Farm prices since the first farm legislation in 1933 has been made in Washington through the level of the price supports established by Congress. The biggest and main struggle over the farm bill is always the fight over the level of price supports which establishes the minimum price for farm products just as the minimum wage legislation sets the minimum wage for working people. Anything that gives farmers the illusion that prices are established any other way is a disservice to farmers and the public.



I do not object to a program of feeding the hungry but this won't do it. In the world 40,000 people mostly children, die each day because of hunger related causes. There are 500 million people who are hungry, malnourished or starving. Three out of 10 children die before they are 5 because of the lack of food. Five out of 10 suffer from malnutrition.

Although we can now feed everyone in the world a 3,000 calorie a day diet without using the nuts, fruits, vegetables and grass fed meat, there are 500 million people hungry, malnourished or starving and the number is growing. The number of unfed in this country is growing alarmingly as food to the consumer is rapidly shooting up in price. Bad farm and food policy carried on by our government must be challenged and changed. Private efforts in the face of bad government policy has little chance of addressing the magnitude of this problem.

Here we have the USDA making proposals in the 1990 farm bill (which sets farm prices not only in the USA but worldwide) according to the CBO that will lower farm income another 21% and eliminate another 500,000 farmers in our country on top of the 400,000 eliminated by the 1985 farm bill. Net farm income for the decade of the 1980s was the lowest of any decade on record. Return on equity was negative most of the decade.

We have a farm policy that is bankrupting the farmer and a food policy that increasingly profiteers from the people that can still afford to eat and creating longer lines of those who are hungry.

We must not spend our time barking up the wrong tree but rather insist that the government see to it that justice is done in our relation with one another. Government farm and food policy must not just serve the corporate agribusiness sector as the leading profitable industrial sector with 18.7% yearly average return on investment the past 5 years.

I am enclosing a chart which shows the importance of the price support level in setting farm prices. In this period of cutting cost of government programs, price supports is a loan to farmers and from 1933 through 1952 the government made \$13 million dollars on its storeable commodities while farmers received 100% of parity or more for 11 years out of 20. This is where our attention must be directed.

LOAN RATE and CASH PRICE WHEAT

Year	LOAN RATE	CASH PRICE
1947	1.84	2.29
1948	2.00	1.99
1949	1.90	1.85
1950	1.90	2.00
1951	2.10	2.12
1952	2.20	2.09
1953	2.11	2.04
1954	2.00	2.12
1955	2.24	1.98
1956	2.08	1.97
1957	2.00	1.93
1958	2.00	1.79
1959	1.82	1.76
1960	1.81	1.74
1961	1.78	1.83
1962	1.79	2.04
1963	2.00	1.85
1964	1.82	1.87
1965	1.80	1.85
1966	1.25	1.83
1967	1.25	1.79
1968	1.25	1.71
1969	1.25	1.25
1970	1.25	1.33
1971	1.25	1.34
1972	1.25	1.70
1973	1.25	3.96
1974	1.37	4.09
1975	1.37	3.56
1976	2.25	2.73
1977	2.25	2.33
1978	2.35	2.97
1979	2.50	3.78
1980	3.00	3.91
1981	3.20	3.66
1982	3.55	3.55
1983	3.65	3.53
1984	3.30	3.38
1985	3.30	3.15
1986	2.40	2.34
1987	2.28	2.64
1988	2.21	3.65
1989	2.05	

*Loan rate  
set cash price  
in 25 of 42  
years of Govt  
program*

4.38

4.00

1990 Figure in 1980  
1.95  
Source: ERS, ASCS, NASS.

LOAN RATE vs.  
CASH PRICE - CORN

YEAR	LOAN RATE	CASH PRICE
1934	0.55	0.81
1935	0.45	0.65
1936	0.55	1.04
1937	0.50	0.52
1938	0.57	0.90
1939	0.57	0.56
1940	0.61	0.72
1941	0.75	0.75
1942	0.83	0.92
1943	0.90	1.12
1944	0.98	1.09
1945	1.01	1.27
1946	1.15	1.56
1947	1.37	2.16
1948	1.44	1.30
1949	1.40	1.25
1950	1.47	1.53
1951	1.57	1.69
1952	1.60	1.52
1953	1.60	1.46
1954	1.62	1.45
1955	1.58	1.35
1956	1.50	1.29
1957	1.40	1.11
1958	1.36	1.12
1959	1.12	1.04
1960	1.06	0.99
1961	1.20	1.07
1962	1.20	1.10
1963	1.07	1.09
1964	1.10	1.15
1965	1.05	1.09
1966	1.05	1.24
1967	1.05	1.05
1968	1.05	1.06
1969	1.05	1.16
1970	1.05	1.33
1971	1.05	1.01
1972	1.05	1.52
1973	1.05	2.55
1974	1.10	3.02
1975	1.10	2.54
1976	1.50	2.15
1977	2.00	2.02
1978	2.00	2.25
1979	2.10	2.52
1980	2.25	3.11
1981	2.40	2.56
1982	2.55	2.61
1983	2.65	3.25
1984	2.55	2.62
1985	2.55	2.35
1986	1.92	1.55
1987	1.82	1.70
1988	1.77	2.60
1989	1.65	---

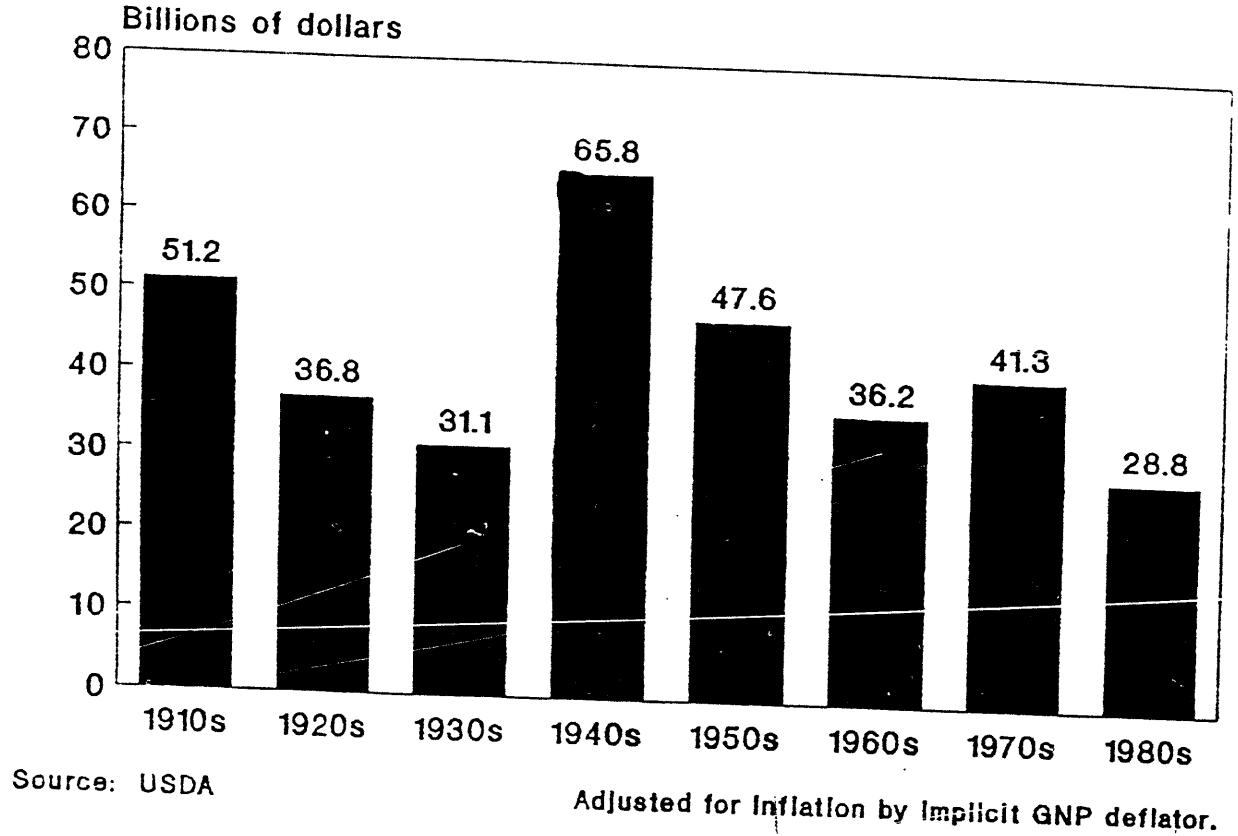
*Loan rate  
set cash price  
in 33 of 55  
years of  
Govt programs*

Source: ERS, ASCS, HABS

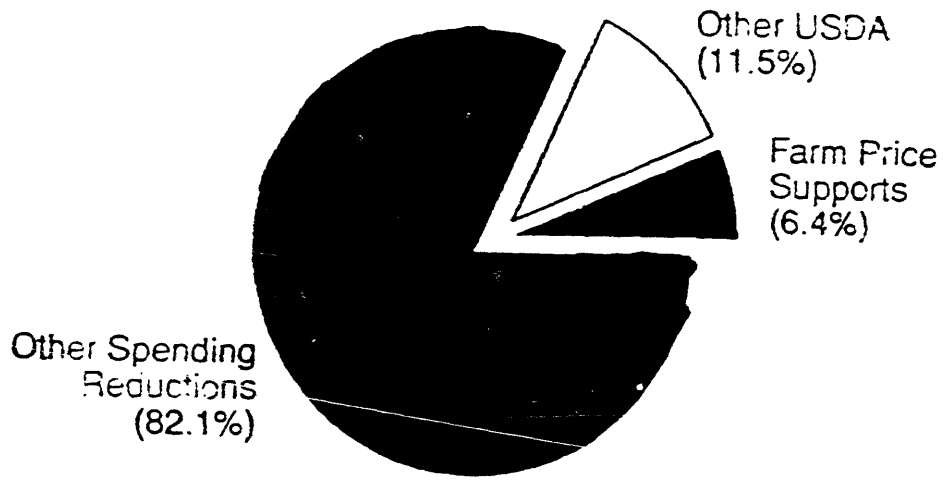
Figures in \$/BU.

# NET FARM INCOME

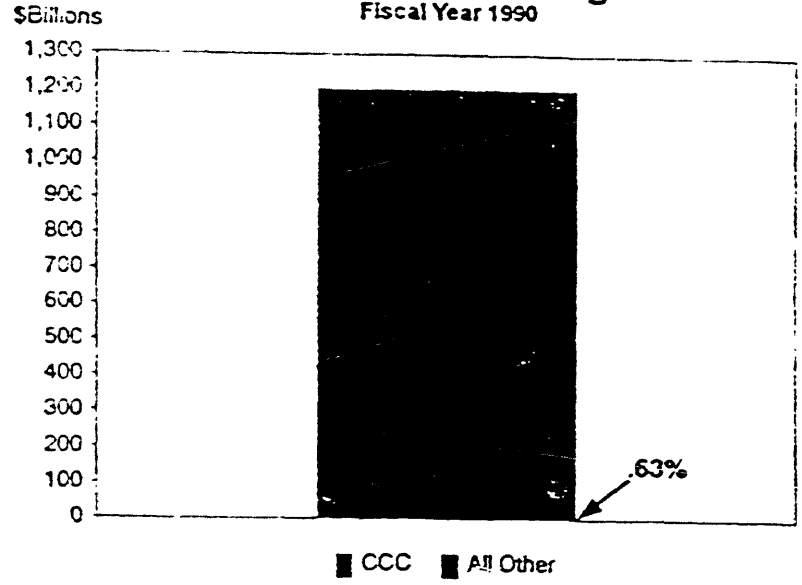
Average for Decade, 1982 Dollars



**Agriculture is 18% of Bush Spending Reduction Proposals**  
Fiscal Year 1991



**Farm Price Support Spending in the Federal Budget**  
Fiscal Year 1990



Source: CBO

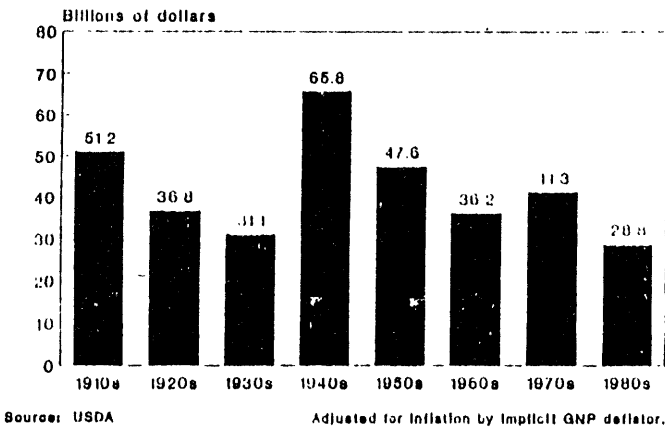
## In A Word: Price.

"When all was said and done, it came down to one word: Price!" Other important issues were discussed at the eight farm policy forums sponsored by the DNC's Agriculture Council during the past six months, but the overwhelming consensus among participating farmers was that the other concerns — overproduction, soil and water conservation, high interest rates, lack of credit, entry by young farmers, the depressed farm service industry, and the farm program's high cost, to name a few — could and would be solved when farmers receive a fair price for their products."

Report by Jim Hightower, Texas Commissioner  
of Agriculture and Chairman, 1984 Democratic  
National Committee's Agricultural Council

## NET FARM INCOME

Average for Decade, 1982 Dollars



### Farm Value as a Percentage of Retail Price for Domestically Produced Foods

Food Item	1973-1986		1980-1988	
	1973-1986	Retail Price Percentage Change	1980-1988	Retail Price Percentage Change
Meats	- 14.8%	+ 70%	- 11.8%	+ 21%
Dairy	- 9.2%	+ 102%	- 23.1%	+ 19%
Poultry	- 12.6%	+ 50%	- 9.2%	+ 29%
Eggs	- 7.9%	+ 16%	n.a.	n.a.
Cereal & Bakery	- 15.4%	+ 155%	- 35.7%	+ 46%
Fresh Fruits & Vegetables	- 7.8%	+ 134%	unchg.	+ 74%
Processed Fruits & Vegetables	+ .9%	+ 137%	+ 21.7%	+ 42%
Fats & Oils	- 20.2%	+ 123%	- 20.8%	+ 27%
<b>AVERAGE USDA MARKET BASKET</b>	<b>- 13.8%</b>	<b>+ 126%</b>	<b>- 18.9%</b>	<b>+ 32%</b>

Source: (1973-1986) Food Consumption, Prices, and Expenditures: 1963-1983, USDA-ERS, Statistical Bulletin #713, Table 5A; "Consumer price indexes for all urban consumers, U.S. average, Agricultural Outlook, USDA-ERS, March, 1987 (1980-1988) Table 2, National Food Review, "Food Price," USDA-ERS, April-June, 1989.

# WHO'S WHERE IN THE INDUSTRY GROUPS

Health and food and beverage firms were the stars of the 1980s.

Industry (number of companies)	Profitability						Growth				Earnings per share			
	Return on equity				Return on capital		Sales				Earnings per share			
	11-year average rank	5-year average %	latest 12 mos %	latest 12 mos %	Debt/capital %	rank	10-year average %	5-year average %	latest 12 mos %	rank	10-year average %	5-year average %	latest 12 mos %	
Health (39)	1	18.7	17.8	18.4	14.7	20.0	7	12.5	12.7	8.8	5	10.2	11.0	15.2
Drugs (19)		20.1	20.7	19.1	16.1	7.3		10.1	11.4	8.8		NM	NM	83.0
Health care services (9)		15.3	14.8	14.4	13.1	46.2		14.0	11.1	16.9		10.2	15.6	3.1
Medical supplies (11)		14.5	16.3	17.1	14.7	23.7		10.3	13.0	8.5				
Food, drink & tobacco (63)	2	18.4	17.5	17.8	12.8	32.3	10	9.6	10.6	10.6	3	11.4	12.7	12.3
Food processors (35)		20.0	20.3	20.3	14.0	24.0		9.1	9.2	10.3		10.6	14.0	14.6
Food distributors (13)		15.7	13.4	12.1	9.3	45.4		14.9	13.1	11.9		11.5	10.6	10.9
Beverages (7)		20.5	20.2	24.4	15.2	17.7		9.2	10.9	5.4		12.7	16.1	12.2
Tobacco (8)		19.3	19.2	23.2	13.0	29.3		11.2	13.6	12.7		14.5	10.8	5.1

## RATES OF RETURN ON FARM ASSETS AND EQUITY

Year	Return to assets			Return to equity		
	Income*	Real capital	Total	Income*	Real capital	Total
1981-83	1.5%	-5.8%	-4.2%	-7%	-5.8%	-6.4%
1984-86	3.5%	-11.8%	-8.4%	1.5%	-14.3%	-12.3%
1987	5.4%	0.0%	5.4%	4.2%	1.2%	5.4%
1988	4.9%	2.3%	7.6%	3.5%	4.4%	8.0%

\* Excludes returns imputed to operator's labor and management

+ Excludes returns imputed to operator's labor and management and interest on debt.

Source: Economic Research Service, USDA

## Index of Real Prices Received

Price index (1910-14 = 100)(log scale)

