

Prepared Remarks of U.S. Senator Chuck Grassley
Chairman, Senate Committee on Finance
Hearing: "Strengthening Regulations and Oversight to Better Ensure
Agriculture Financing Integrity"
June 16, 2004

This hearing will come to order. The purpose of today's hearing is to introduce and discuss a report by the General Accounting Office that evaluated qualifications and oversight associated with farm entity financing.

I would like to thank Larry Dyckman, Director of Natural Resources and Environment at GAO who will testify before the Finance Committee today, Ron Maxon, Tom Cook, Carol Herrnstadt Shulman, and Cleofas Zapata of GAO who all made significant contributions to the material being presented.

As everyone here knows, I have long been an advocate for reasonable, legitimate farm program payment limits. The American people recognize the importance of the family farmer to our nation, and the need to provide an adequate safety net for family farms. In recent years, however, assistance to farmers has come under increasing scrutiny.

Critics of farm program payments have argued that the largest corporate farms reap most of the benefits of these payments. The reality is, 60 percent of the payments have gone to only 10 percent of our nation's farmers.

What's more, farm payments that were originally designed to benefit small and medium-sized family farmers have contributed to their own demise. Unlimited farm payments have placed upward pressure on land prices and have contributed to overproduction and lower commodity prices, driving many family farmers off the farm.

The Senate agreed, by an overwhelming bipartisan vote during the 2002 farm bill debate and two Senate Budget Committee markups that targeting federal assistance to small and medium-sized family farmers is the right thing to do.

It has been my hope since the farm bill conference committee dropped the payment limit amendment that Congress would establish legitimate, reasonable payment limits similar to S. 667, the payment limits bill I introduced this session.

This hearing though is NOT about lowering payment limits to reasonable levels for the 1.3 million individuals and entities receiving farm program payments.

Program payments are a necessary element in the "safety net" Congress established to assist family farmers. Some folks forget that I have defended farm payments throughout my career due to the inherent risk involved with agriculture production.

The ability of farm program payments to provide financing to small and medium-sized producers in times of need has proven to be crucial for the survivability and sustainability of the agriculture community. But if Congress is expected to continue support farm programs, we must prove to taxpayers that the programs are tailored for the desired effect.

Between 1999 and 2002, farmers received approximately \$60 billion in federal farm program payments from USDA to support production of "program crops" which include, but are not limited to corn, cotton, barley, rice, and wheat.

Congress enacted the Agriculture Reconciliation Act of 1987 (commonly referred to as the Farm Program Payments Integrity Act) to establish eligibility conditions for recipients and to ensure that only entities "actively engaged in farming" received payments.

To be considered actively engaged in farming, the Farm Program Payments Integrity Act requires an individual or entity to provide a significant contribution of inputs (capital, land or equipment) as well as a significant contribution of services of personal labor or active management to the farming operation.

I wrote the GAO to request an analysis of the implementation and current application of the Farm Program Payments Integrity Act of 1987. The 87 Act created the three entity rule and was intended to tighten rules requiring farm program recipients to be actively engaged in farming.

Congress intended to end abuses such as the widely publicized “Mississippi Christmas tree” where one farm was subdivided into many corporations each receiving payments up to the established limit.

However, press accounts over the last two years have called into question the effectiveness of the 1987 Act. For example, a story in the press described a family owned property which reportedly received \$38 million between 1996 and 2001 on a 61,000 acre spread. The farm was leased to a complex partnership involving 39 local investors who in turn had 66 separate corporations, which were seemingly created to maximize government payments.

This arrangement and others like it raise questions about the interpretation and enforcement of the 1987 Act's requirement that each partner be actively engaged in farming.

Specifically, what standards are being applied to determine whether a significant contribution of active personal labor, active personal management or a combination of the two is being provided by the payment recipient? I also asked GAO to determine if these standards reflect the intent of Congress in passing the 1987 Act, and if not what reform is necessary?

The GAO conducted its review from May 2003 through March 2004. The information the General Accounting Office will reveal today shows that just about anybody can get a piece of the pie.

My constituents who have dirt under their fingernails have a hard time understanding this. They know that Congress never intended the guy who makes a couple calls a year to act like he's involved in the farming process to get the biggest piece of the pie. I think we can ALL learn something from this report. Hopefully this information will help us to get past regional disparities and establish a new consensus position for the good of the agriculture community.

Once again I would like to thank the GAO team for their hard work and I look forward to hearing your testimony.

