RISING FOOD PRICES: BUDGET CHALLENGES

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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RISING FOOD PRICES: BUDGET CHALLENGES

WEDNESDAY, JULY 30, 2008

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 2:00 p.m., in room 210, Cannon House Office Building, Hon. John M. Spratt presiding.

Present: Representatives Spratt, Doggett, Berry, McGovern, Etheridge, Moore of Wisconsin, Ryan, Garrett, Porter, Smith, and Jordan.

Chairman SPRATT. Well, good afternoon and welcome to our hearing on rising food prices and their impact on family budgets and the federal budget as well. I want to thank our colleague, Congressman Jim McGovern, for proposing this hearing and for all his efforts to make sure that this Committee, and for that matter this Congress, are aware of the challenge of hunger in a land of plenty.

The United States and other countries around the world are witnessing the biggest spike in food prices in eighteen years. In two years, world food prices of major commodities have risen more than 60 percent. The increases are due to a combination of factors: elevated demand for food that comes with rising incomes in the developing world, adverse weather, and diversion of grain to products like biofuel.

In the United States a combination of stagnant wages and rising fuel and food costs is squeezing families and driving some who have never sought assistance before to seek assistance. The government will have to deal with the budgetary consequences of higher food costs. Some program adjust automatically but others will require additional funding simply to maintain current caseloads.

The challenge will be even greater because many of the programs that assist low and middle income families were already stressed by years of underfunding. Deteriorating economic conditions may also require Congress to consider a second economic stimulus. And there are economists who are suggesting that increasing food aid would be an effective way to stimulate the economy as well as help people who desperately need it.

Internationally rising food costs are having even worse impacts than here at home. According to the World Bank and to the United Nations, more than 100 million people are now being pushed into poverty for this reason alone. Many experts say that meeting these needs will require emergency funding in the short term and long term agricultural development.

[The statement of John Spratt follows:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET

Good afternoon and welcome to this Budget Committee hearing on rising food prices and the impact they have on family budgets and our federal budget. I want to thank Congressman Jim McGovern for suggesting this important hearing topic and for his tireless efforts to make sure our Committee and this Congress are confronting the challenge of hunger.

The United States and other countries around the world are experiencing the biggest spike in food prices in 18 years. In just the last two years, world market prices for major food commodities such as grains and vegetable oils have risen more than 60 percent. The increases are due to a combination of factors, including the elevated food demand that accompanies rising incomes in the developing world, adverse climatic events like droughts, and the diversion of grains like corn to biofuel production.

In the United States, a combination of stagnant wages and very high costs for food and other necessities is squeezing our working families. This is driving some families that have never before sought government assistance to ask for help. Just like families around the country, the federal government will need to make difficult tradeoffs and adjust its budget because of the much higher cost of food. Some programs adjust automatically but others will have to be adjusted by Congress just to maintain their current caseloads. This is a challenge that our colleagues at the authorizing committees and the Appropriations Committee are already grappling with.

Our challenge will be even greater because many of the programs that assist low- and middle-income families were already stressed by seven years of budget cuts. Deteriorating economic conditions may also require Congress to consider a second economic stimulus package. Many economists have suggested that increasing domestic food aid programs would be among the most effective ways to stimulate the economy because recipients tend to need to spend these dollars as soon as they are received.

Internationally, rising food prices are having even worse impacts—including civil unrest—in more than 33 developing countries. Most of these countries are in Sub-Saharan Africa. According to World Bank and United Nations estimates, more than 100 million people have been pushed into poverty. Experts suggest that meeting these needs will require emergency funding in the short term and progress on trade policy and agricultural development in the long term. This Congress has already provided emergency funding to address this crisis.

We have a distinguished panel of witnesses, and because the budget implications of rising food costs are so broad, we've asked them to cover a lot of territory. I would like to welcome them.

Josette Sheeran is the Director of the United Nations World Food Programme, the world's largest humanitarian agency, which will provide food and other assistance to 90 million people this year.

Dr. Jared Bernstein is the Director of the Living Standards Program at the Economic Policy Institute and the author of Crunch: Why Do I Feel So Squeezed (And Other Unanswered Economic Questions)?"

Dr. Steve Hanke is Co-Director of the Institute for Applied Economics and the Study of Business Enterprise at The Johns Hopkins University in Baltimore and a Senior Fellow at the Cato Institute.

And finally, I'd like to extend a special welcome to Susan Berkowitz, who is the Executive Director of South Carolina Appleseed Legal Justice Center, which serves a wide range of needs for low-income families in my home state of South Carolina and has played a critical role in improving the quality of life for families in need.

Chairman SPRATT. We have a distinguished panel of witnesses today and I would like to welcome each one of them. First of all, Josette Sheeran is stuck in traffic. She was to be our first witness but she is on the way and she has telephoned ahead. So we will start without her. Dr. Jared Bernstein is the Director of the Living Standards Program at the Economic Policy Institute, and author of "Crunch: Why Do I Feel So Squeezed? (And Other Unanswered Economic Questions)." Sounds a little bit like therapy. Dr. Steve Hanke is Co-Director of the Institute for Applied Economics and Study of Business Enterprise at Johns Hopkins University, and Senior Fellow at the Cato Institute. And we are glad to have you today. Finally, I would like to send an especially warm welcome to Susan Berkowitz who is the Executive Director of the South Carolina Appleseed Legal Justice Center. They do work, good work, for people who really need it just across the board, but particularly in the case of feeding the hungry. And we are glad to have you here again. Thank you for coming.

And there is one special person who is coming to be in the audience today who has a major interest in this, a professional interest in it. Her name is Dr. Susana Sanchez from The World Bank. She happens to be the wife of our Staff Director, Tom Kahn. And by far his better half. She too is stuck in traffic——

Mr. RYAN. She just arrived.

Chairman SPRATT. Oh, she just arrived? Where is Susie?

Mr. RYAN. And let me echo that sentiment as well, the far better half.

Chairman SPRATT. Come on up here and have a seat. For goodness' sake, we are not going to make you stand up. Can you not get your wife a seat, Tom?

Mr. RYAN. She is really embarrassed.

Chairman SPRATT. Susie, we are glad to have you. Thank you for coming. Now I want to recognize the Ranking Member Mr. Ryan for any statement that he may wish to make.

Mr. RYAN. Thank you, Chairman. Thank you for organizing this hearing and Congressman McGovern, thank you as well for your idea to put this important hearing together. I think all of us are concerned about the problem of rising food prices. The sharp increases in basic staples like wheat, corn, and rice are causing significant pain both here and abroad, and especially in third world nations. But unfortunately, large price increases are not limited to agricultural commodities and food. Over the past year we have also seen oil prices double and gasoline prices surge well past $4 a gallon. The problem also extends beyond fuels to other basic inputs like metals and chemicals. In fact, when we look around we see that rising food prices are simply just one manifestation of a broader, more serious inflation problem in our economy. So therefore, I think it is important that we take a step back from any one issue, like food or energy, and look at the root causes of the general inflation problem. And clearly, one key factor behind rising prices has been the recent actions of the Federal Reserve.

Now, I will be the first to admit that the Fed is in a real bind. The economy has just faced serious challenges stemming largely from the housing downturn and the associated turmoil in the financial and credit markets. And the Fed has slashed interest rates in order to soften the blow. But at the same time, these aggressive actions by our Federal Reserve have stoked fraud based inflationary pressures. The warning bells are starting to become much, much louder. The Consumer Price Index just hit a seventeen year high of 5.0 percent. Sharply lower interest rates have undermined the value of the dollar, sending the price of key dollar denominated commodities like oil much higher. Ominously, I have been hearing more stories about businesses passing along their higher input costs to consumers in the form of much higher retail prices.

Consumers are certainly bracing for more pain. Surveys show that their near term inflation expectations are at their highest level in over twenty-five years. My fear is once this inflationary cycle is allowed to settle into our economy it is going to be extremely difficult to wring this out and it will damage our future growth prospects. And since the Fed controls monetary policy it is the only institution that can guarantee long run price stability and prevent his vicious cycle from occurring.

These are certainly challenging times for policy makers whether they be monetary or fiscal policy makers. And we all have a stake in good policy. And achieving good policy means we look not only at the effects of the inflation problem, which is what we are largely doing here today, but its root cause, and then make the necessary changes to ensure price stability now and in the future. Thank you, Chairman.

Chairman SPRATT. Thank you, Mr. Ryan. Now Mr. McGovern, would you like to make an opening statement?

Mr. MCGOVERN. Thank you, Mr. Chairman. First of all, thank you and the Ranking Member for agreeing to do this hearing. I think this is an incredibly important issue. I would say that it is not just a budgetary issue, it is a moral issue. And even before the recent spike in food prices, we had a food insecurity and hunger problem in the United States and around the world. This is not a new problem. It has just been exacerbated by the spike in food prices. And we need to understand that there is a cost to inaction. There is a cost to doing nothing. Hunger costs a lot of money. So part of what I hope will happen is that there is a consensus in this Congress that we need to do more domestically and around the world. And we need to understand that there is a short term challenge that we have. That people are facing difficult times right now. And then there is the long term challenge, about how we deal with global hunger issues and how we deal with the domestic issues of food insecurity and hunger here in the United States.

So this is a timely hearing. It is an important hearing. I believe that hunger is a political condition. I think that if we have the political will this is something that we can conquer and solve, and I hope that that is what happens. And Mr. Chairman, I would like to ask unanimous consent that we include in the record for this hearing written statements submitted by America's Second Harvest and the International Dairy Foods Association.

Chairman SPRATT. Without objection.

[The statement of America's Second Harvest follows:]

PREPARED STATEMENT OF VICKI ESCARRA, PRESIDENT AND CEO, AMERICA'S SECOND HARVEST—THE NATION'S FOOD BANK NETWORK

Thank you Mr. Chairman and Members of the Committee for the opportunity to submit testimony regarding the challenges faced by millions of Americans who are struggling to feed themselves and their families. I am Vicki Escarra, President and CEO of America's Second Harvest—the Nation's Food Bank Network.

America's Second Harvest consists of 205 Food Banks serving all 50 States, Puerto Rico and the District of Columbia. Each year, our network of food banks distributes more than 2 billion pounds of food and grocery products to 63,000 charitable agencies, including soup kitchens, food pantries, and emergency shelters. They in turn provide food to more than 25 million low-income Americans annually.

INTRODUCTION

This hearing couldn't come at a more important time. While my testimony is focused on the challenges at home, we are most sympathetic and supportive of efforts to help hungry people throughout the world.

In the United States, rising food prices, coupled with massive increases in fuel and utility costs, more unemployment, and the subprime mortgage crisis have conspired to create a major increase in the demand for emergency food assistance throughout our nation.

CURRENT STATE OF FOOD BANKS

In late April and May 2008, America's Second Harvest conducted a survey of 180 member food banks.

- 99 percent of respondents reported an increase in the number of people being served compared to one year ago.
- The average increase in demand was between 15 and 20 percent.
- More than 90 percent of the respondents cited increasing food and fuel prices as primary factors driving the increases in need. Other factors included inadequate food stamp benefits, unemployment, underemployment, and rent or mortgage costs.
- More than 80 percent of the food banks surveyed indicated an inability to adequately meet the demands of hungry people without having to reduce the amount of food or their operations.
- Nearly 55 percent of food banks surveyed reported that their agencies, including soup kitchens and food pantries, have reduced or are considering reducing the amount of food offered to clients.
- Approximately 50 percent of food banks have or are considering reducing the variety of food made available to agencies due to diminished supplies.
- Nearly 44 percent of food banks reported that they have or are considering cutting back the amount of food made available to their agencies.

Because of high farm prices, the annual value of USDA surplus food provided to food banks and other emergency food providers declined by nearly $200 million in recent years. While additional funding made available through the Farm Bill will help restock food bank inventories, it is not nearly enough to meet the unprecedented levels of demand our food banks are now facing.

- More than 45 percent of food banks surveyed reported that they have or are considering diverting funds from other areas to purchase food in order to feed people in their community. This diversion of funds means eating into budgets already struggling with high transportation costs as well as spending more money for less food.

Attached to my statement is a one page summary of our survey results.

SKYROCKETING COST OF FOOD TRANSPORTATION

The costs of transporting food have also increased dramatically. In 2002, America's Second Harvest was able to move approximately 100 pounds of food for each dollar spent on transportation. Our most recent official data shows that last year we were able to move only 56 pounds with that same dollar. Our most recent preliminary data shows that we are now moving fewer than 50 pounds for each dollar spent on transportation.

In the last year alone, the cost of diesel fuel rose by roughly 66%. We estimate that our Network will spend $10 to $13 million more this year compared to last year ago on fuel for its collective fleet of trucks. Further, this estimate only captures a part of the problem since it does not include the fuel cost to thousands of charities that pick up food from their local food bank and other sources.

FORECAST

The worsening economy affects everyone. However, it is the poor and the near poor who are least able to cope with the multiple challenges of unemployment or underemployment, massive increases in energy costs, and food price inflation levels not seen in decades.

In a recent New York Times article titled, "Uncomfortable Answers to Questions on the Economy" the author says "Economic slowdowns always mean job losses. Unemployment has already risen, and almost certainly will increase more." In the same article, Goldman Sachs is quoted predicting a rise in the unemployment rate from the current 5.5% to 6.5% by the end of 2009.

As food, fuel, rent, utilities and other basic expenses continue to escalate, at-risk families are not able to cut back other expenses to purchase food. The average food stamp benefit per household is $215 per month, or roughly $50 per week. Food stamp clients have seen a significant decline in the purchasing power of food stamp benefits. The cost of the foods used to establish food stamp benefits are now 7.5 % higher than they were when the current benefit levels were set last June. This rapid food price inflation has significantly reduced the purchasing power of food stamp benefits, and will continue to force many food stamp clients to seek emergency food assistance from food pantries and soup kitchens or simply do without.

HOW CONGRESS CAN HELP

First and foremost, as the Congress works on new Economic Recovery Legislation to help stimulate our weakening economy, the needs of families and individuals struggling to put food on the table must be addressed. For our food banks and the 63,000 agencies that they support to remain viable and responsive, it is critically important that several proposals are included in this legislation.

- $45 million for TEFAP storage and distribution. Skyrocketing transportation costs and tight state and local budgets make this a critical necessity. Beginning in Fiscal Year 2008, the Farm Bill raised the authorization for The Emergency Food Assistance Program (TEFAP) storage and distributions costs to $100 million. Food banks are desperately in need of this funding to offset costs of operations and transporting food to people in need and to prepare for the continued influx in the number of people requesting food assistance projected in the coming months.
- $15 million for transportation and infrastructure grants. Recognizing the challenges food banks in rural areas are facing in delivering food to hungry people in sparsely populated communities, Congress authorized $15 million for transportation and infrastructure grants in the Farm Bill. Although the Farm Bill authorization begins in FY 2008, no funding has been provided for this critical initiative that will be especially helpful to food banks delivering food to hungry people in rural communities.
- $100 million to USDA for the purchase of additional TEFAP commodities . Additional federal commodity support is vital to food banks if they are to keep up with major increases in demand in the months ahead.
- Additional Resources for other important Federal nutrition programs. Congress must also include resources for other programs to assist Americans in need of food. Improvements in food stamp benefits and increased food stamp outreach to eligible people who are not currently participating is critical. Other programs that are part of the nutrition safety net, such as WIC, Child Nutrition and Commodity based programs such as the Commodity Supplemental Food Program (CSFP) must be sustained.

CONCLUSION

Mr. Chairman and distinguished Members of the Committee let me conclude by again thanking you for holding this very important and timely hearing and for including my statement. This is a critical time for our country and our leaders to set the stage for a robust economic recovery. Making sure that all Americans have enough to eat is a critical foundation for future economic growth as well as a statement of our compassion.

ATTACHMENT—SUMMARY OF LOCAL IMPACT SURVEY

During April and May, 2008, America's Second Harvest surveyed 180 food banks nationwide to determine the impact of food and fuel prices on their clients, agencies, and operations. Our food banks reported that they are encountering a 15-20% increase on average in the number of people turning to them for food assistance compared to one year ago.

Ninety-nine percent of food bank respondents stated that they have experience an increase in the number of clients served within the past year.

Among the various economic factors stated as contributing to this increased need, two factors emerged as primary factors; the rising cost of food and fuel.

The following are factors cited as contributing to the increased need:

- 91.67% the rising cost of food
- 92.78% the rising cost of fuel
- 43.33% rising unemployment
- 42.22% rising underemployment
- 46.11% mortgage or rent issues
- 31.11% the inadequacy of food stamps

As a result of these factors, the manner in which food banks and their agencies normally operate is changing. Among food bank respondents:

- 81.11% of surveyed food banks have indicated that they are currently unable to adequately meet the demand without having to reduce the amount of food or their operations.
- 43.84% of these food banks stated that they already have or are considering reducing the amount of food offered to agencies in order to meet demand.
- 54.79% stated that their agencies already have or are considering reducing the amount of food offered to clients.

• 48.63% of these food banks already have or are considering reducing the variety of food offered to agencies.

• 27.4% of these food banks responded that some of their agencies already have or are considering reducing the number of new households they will serve.

• 13.7% of these food banks responded that they already have or are considering reducing or suspending programs and services offered.

• 45.21% of these food banks responded that they already have or are considering diverting budgeted funds from other areas to purchase food.

[The statement of the International Dairy Foods Association follows:]

IDFA
International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

Statement to the House Committee on the Budget

Constance E. Tipton
President & CEO
International Dairy Foods Association

July 30, 2008

Chairman Spratt, Ranking Member Ryan, and other members of the Committee, thank you for the opportunity to submit testimony on the challenges of rising food prices on the federal budget. This brief statement highlights the fact that recent and pending regulatory decisions at USDA have increased the cost of milk, resulting in higher government outlays under USDA food and nutrition programs and a reduction in milk demand from the poorest U.S. households. USDA is currently considering additional increases that would raise the farm price of milk in other parts of the country, and further increase the impact on the Budget.

This statement is accompanied by graphs showing historical dairy product prices and the volume of milk that is purchased by U.S. schools under the U.S. Department of Agriculture (USDA) food and nutrition programs.

The International Dairy Food Association represents over 85% of the nation's milk, cheese, and ice cream makers, with over 1100 processing plants and 120,000 employees nationwide. Dairy products have an estimated $114 billion in retail value driven by demand from U.S. households and food service establishments, increasing export demand, and demand from federal and state funded nutrition programs - such as the school lunch and breakfast programs, and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).

Nutrition programs are significantly impacted when milk prices rise to historically high levels, as they have in the past year. Budget costs increase directly for programs such as USDA's Special Milk Program, which subsidizes the price of milk in a limited number of schools, and indirectly, as the purchasing power of entitlement benefits, such as Food Stamps, is eroded.

Rising milk prices are driven by a combination of rising global demand for U.S. dairy products as well as higher feed and fuel costs. Energy costs play a critical role, as milk production and processing occurs 24 hour a day, 365 days a year. Milk must be transported from the farm, to processing plants -- where milk is pasteurized, processed, and packaged into dairy products -- and finally transported through wholesale and retail marketing channels.

While macro economic factors have increased food prices across all categories, and certain federal policies are a direct cause of the rising cost of food, nowhere is this relationship illustrated more clearly than in the case of the USDA's Federal Milk Marketing Order (FMMO) pricing system. For over seventy years, the government has used the FMMO system to set minimum prices for fluid milk, which continues to impact the vast majority of milk and dairy product pricing across the country today. These regulated prices can raise farm milk costs above market levels even when milk prices are high - such as they are today.

Instead of doing everything it can to keep milk available and affordable under the current economic situation, the Administration is making changes that result in even higher milk prices. While Congress was passing the new 2008 Farm Bill, with increased government funding to protect dairy farmers from price downturns, USDA raised farm milk prices throughout every county in fourteen Southeastern and Appalachian states with the implementation of a controversial Federal Milk Marketing Order change. USDA already sets the cost of farm milk in Florida and other states in the Southeast at a much higher level than the upper Midwest and other parts of the country.

IDFA opposed this decision to raise prices because the condition that normally would trigger an increase — a documented shortage of milk in the region — did not exist. In fact, USDA reports that milk producers are expanding dairy herds in response to favorable returns during 2007, and cow numbers are expected to increase further in 2008.

Rising milk costs are making it increasingly difficult for processors and school districts under USDA's school lunch program to meet program requirements within budget. The budget for USDA's child nutrition programs must serve more than 30 million students every day, and school foodservice directors across the country are struggling to make nutritious meals because reimbursement rates from USDA have not kept pace with rising milk and food costs. These programs — just like families on a strict budget — are forced to cut corners. We are concerned that unhealthy trade-offs will be made that will include cheaper alternatives to dairy products, if budgets do not keep pace with price increases.

The WIC program serves almost 9 million women and children. Because of the nutritional benefits of dairy products, more than 40 percent of WIC food costs are reimbursements paid to food retailers for participants who use vouchers to purchase milk and cheese. In some markets, cheese prices are up 11 percent; and milk prices are up 20 percent so not surprisingly, the cost of the WIC program has ballooned to more than $6 billion per year.

Higher milk and dairy product prices also hurt food banks and increase the costs of federal programs like the Commodity Supplemental Food Program (CSFP) and the Emergency Food Assistance Program (TEFAP) Participation rates are up in these programs, and the limited funding available is being stretched to the breaking point. Some food banks have reported that they are now faced with having to forego including high cost items such as nonfat dry milk, in order to feed more people.

Just like a house of cards, the decision to raise prices in the Southeast has prompted USDA to consider raising milk prices in neighboring states. On August 19, USDA will hold a hearing to consider raising milk prices in Ohio, Indiana, Michigan, and parts of Pennsylvania, Kentucky, and West Virginia. If USDA has made an analysis of the impact of these changes on the cost of federal programs, it has not been made public. These decisions appear to be done in isolation, not considering the impact on consumers and the budget, or the need for these decisions given the abundance of milk being produced and the increased levels of support for dairy farmers that are included in the new Farm Bill.

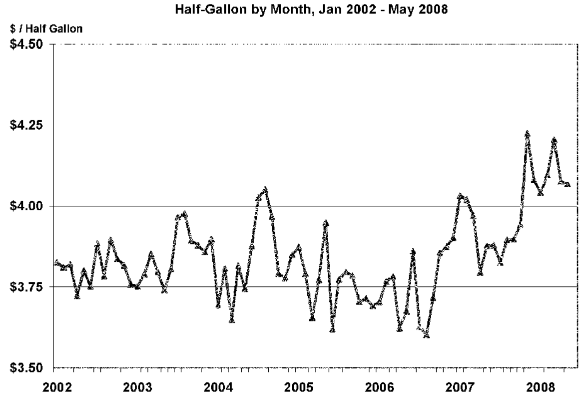
Unbelievably, USDA is currently considering another proposal to raise these farm milk prices nationally. While we have taken the position that USDA should not take this action, we hope that Congress will utilize this opportunity to consider how to reform this ineffective, Depression-era milk pricing system.

Until then, however, we urge the Budget Committee to continue to fully fund the important programs at USDA that many low and moderate income families are dependent upon. We also encourage you to consider increasing the resources available to fund the child nutrition programs at USDA. Specifically, during reauthorization of the Child Nutrition Act, we are proposing that direct milk reimbursements be available in all schools across the country. Just as the Farm Bill included increased support for dairy farmers struggling with high costs, we think all school districts should get reimbursements that keep pace with the cost of milk.

Thank you for your time and consideration of these points.

International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

Average U.S. City Retail Price for Regular Ice Cream per Half-Gallon by Month, Jan 2002 - May 2008

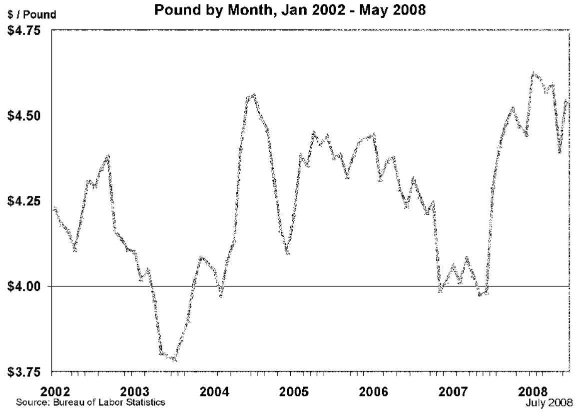


Source: Bureau of Labor Statistics

July 2008

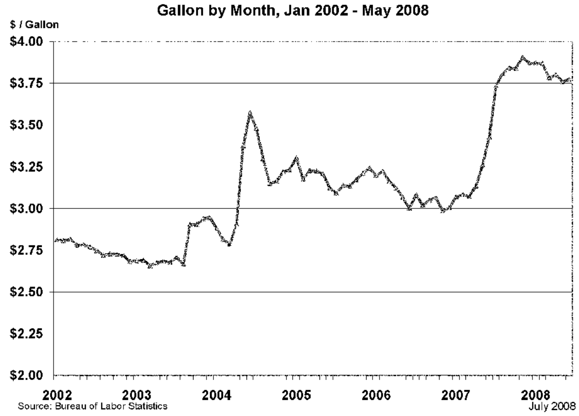
International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

Average U.S. City Retail Price for Natural Cheese per Pound by Month, Jan 2002 - May 2008



International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

Average U.S. City Retail Price for Whole Milk per Gallon by Month, Jan 2002 - May 2008



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Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

Milk Consumed Through Federal School Programs

	School Lunch Program (half pints)	School Breakfast Program (half pints)	Special Milk Program (half pints)	Total Half Pints Served	% of U.S. Fluid Milk Sales
			(Millions)		
1990	3,407.7	594.3	181.2	4,183.2	4.1
1991	3,443.3	648.6	177.0	4,268.8	4.1
1992	3,486.6	716.2	174.4	4,377.2	4.3
1993	3,517.0	775.8	167.3	4,460.2	4.3
1994	3,571.5	841.3	158.8	4,571.7	4.5
1995	3,615.4	906.3	151.4	4,673.1	4.5
1996	3,666.2	945.6	144.3	4,756.1	4.5
1997	3,747.7	1,000.6	140.6	4,888.9	4.6
1998	3,761.2	1,025.6	133.6	4,920.4	4.8
1999	3,836.6	1,064.8	126.9	5,028.2	4.9
2000	3,888.9	1,094.9	120.1	5,103.9	5.0
2001	3,897.4	1,121.0	116.4	5,134.8	5.0
2002	4,009.1	1,180.0	112.6	5,301.7	5.2
2003	4,048.5	1,216.2	107.7	5,372.4	5.3
2004	4,116.0	1,280.8	103.4	5,500.2	5.4
2005	4,229.8	1,347.4	100.1	5,677.2	5.6
2006	4,274.0	1,399.4	96.8	5,770.2	5.6
2007	4,310.4	1,440.1	90.4	5,840.9	5.7

r Revised.
Source: USDA, Food and Nutrition Service;
National Agricultural Statistics Service.

Mr. McGovern. And thank you very much.

Chairman Spratt. And let me also say that unless there is objection all members will be allowed to submit an opening statement for the record at this point in the record. Without objection, so ordered.

[The statement of Mr. Smith of Nebraska follows:]

PREPARED STATEMENT OF HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Good afternoon and thank you, Mr. Chairman. I am pleased that we are holding this hearing today, and I look forward to hearing the testimony of our witnesses.

With the high price of energy, escalating food costs, and the housing crunch, Nebraskans are feeling the squeeze as they try to stretch a shrinking dollar across a widening household budget gap. Rising food costs have captured the attention of Nebraskans, the nation, and the world; but identifying and dealing with the root cause of this food price inflation is, unfortunately, not an easy task.

We must do more than just provide a funding increase for nutrition programs. To address food insecurity problems around the United States and the world, our goal should be to stabilize prices through sound monetary policy, low taxes, and restraint of federal government spending. Altering our energy policy to allow more development of domestic energy resources will also help to lower food prices, as 44 percent of the cost of food is attributed to fuel, transportation, and energy inputs.

I hope our witnesses today will be able to shed light on how we can help hungry families by pumping value back into the dollar and allowing taxpayers to keep more of their hard earned income in their own pocketbooks.

I want to thank our witnesses for coming here today to provide testimony for the Committee. I appreciate the Committee holding this hearing. Mr. Chairman, I look forward to continuing to work with you, and I thank you for your time.

Chairman SPRATT. Let me say as well to our witnesses that we have your prepared and filed testimony. They will be made part of the record and you can summarize them as we see fit.

Dr. Bernstein, let us begin with you if that is agreeable.

STATEMENTS OF JOSETTE SHEERAN, EXECUTIVE DIRECTOR, UNITED NATIONS WORLD FOOD PROGRAMME; JARED BERNSTEIN, DIRECTOR OF THE LIVING STANDARDS PROGRAM, ECONOMIC POLICY INSTITUTE; SUSAN BERKOWITZ, EXECUTIVE DIRECTOR, SOUTH CAROLINA APPLESEED LEGAL JUSTICE CENTER; AND STEVE H. HANKE, PROFESSOR, JOHNS HOPKINS UNIVERSITY, SENIOR FELLOW, CATO INSTITUTE

STATEMENT OF JARED BERNSTEIN

Mr. BERNSTEIN. Chairman Spratt, Ranking Member Ryan, I thank you for this opportunity to testify and I commend this Committee for targeting this critical issue of rising food prices and the resulting budget constraints facing families both here and abroad. My testimony today will focus on one aspect of the rising food prices: the challenge this poses to low income families in this country.

Overall inflation is, as mentioned, rising more quickly now than in recent years, up 5 percent over the past year, driven largely by food and energy costs. Food purchase for home consumption is rising even more quickly, up 6.1 percent. A year ago, these inflation rates were 2.7 for overall prices and 4.6 for food at home.

With these price accelerations in mind my testimony makes these few points. First, when considering the economic squeeze that food price increases are having on low and middle income families, we need to recognize their economic context. In part, due to the weak and highly unequal recovery of the 2000's, poverty is actually higher now than it was in 2000 and median family income adjusted for inflation is lower.

Second, current labor market conditions are leading to broad based losses in real earnings. Measured on a year over year basis, Bureau of Labor statistics data show that real earnings are down every month since last October.

Third, higher food prices create a disproportionate burden on low income families because these families spend more of their family budgets on food.

Fourth, there is evidence that the poor pay higher food prices and that they face faster food price inflation. Over the past year, while the average consumer price index for food at home was up

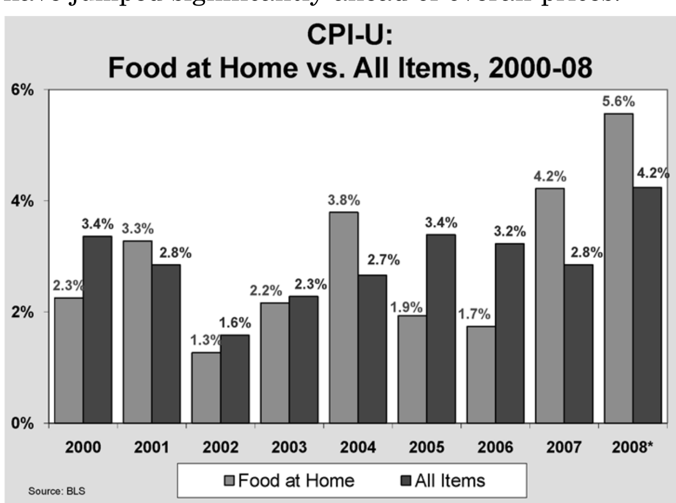
6.1 percent the USDA's low cost food budget for a family of four with two children rose 9.6 percent.

The combination of these factors is giving rise to steep increases in the food stamp rolls, which in April hit their second highest level on record, 28.1 million, a 1.8 million increase over last April. Even with this increase, the Food and Research Action Center points out that one out of three eligible persons fails to access the food stamp rolls.

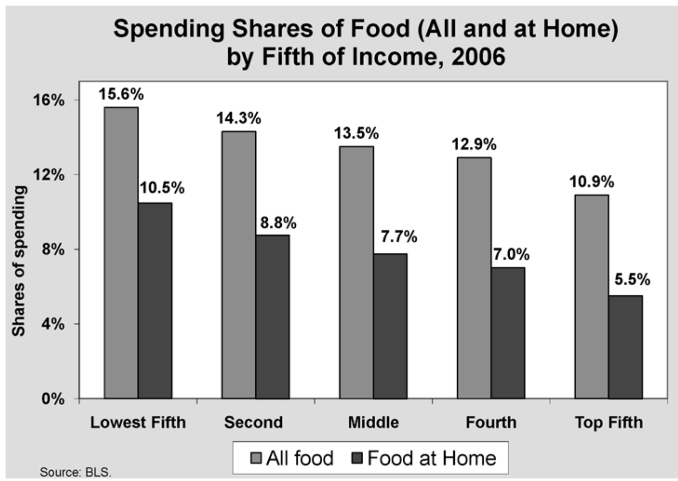
Taking these facts and trends into account I recommend that Congress consider investing increased resources in the Food Stamp Program, a step that was proposed, though not taken, in the first stimulus package that passed earlier this year. Including a food stamp expansion in a second stimulus would fulfill two purposes. First, it would help to alleviate some of the budget constraints I document in my testimony. And second, it would act as an effective stimulus as an increase of food stamp grants has been found to create the biggest bang for the buck in terms of its economic multiplier effects.

I will use the rest of my time to briefly elaborate these points. When it comes to food, the budget constraints facing low income families can be summarized as follows. Such families spend a larger share of their budgets on food. And while prices overall have accelerated sharply over the past year the prices of food are rising faster than average prices and the prices of the food budget of lowest income families are rising faster still. Now these inflation results along with the ongoing weakness in the job market are leading to persistent real wage losses which in turn further constrain family budgets.

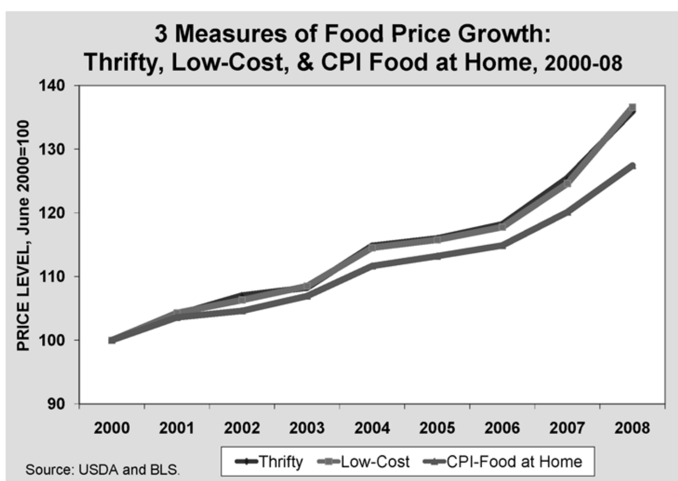
I have a set of figures in my testimony. I see that they are up there on the wall. If I put my glasses on I can probably see them myself. The first figure there shows the rate of price growth for food at home and all items in the CPI, the overall average CPI. In the last three and a half years the pattern has been clear. Food prices have jumped significantly ahead of overall prices.



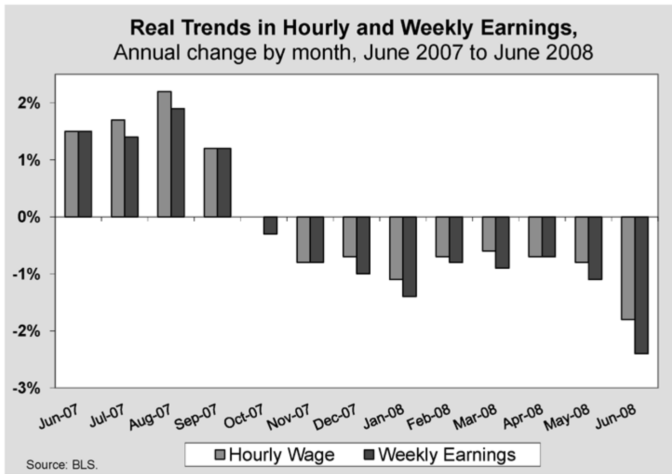
The next figure shows the variation of the average budget share for all food and for food at home. The lowest income families spend 10.5 percent of their expenditures on groceries compared to 5.5 percent for families in the top fifth.



The next figure plots the prices of two low cost food budgets, that is those two lines at the top that are kind of right on top of each other, the two low cost food budgets against the overall CPI. Over this period between 2000 and 2008 the low income budgets are up 36 percent compared to 27 percent for the CPI at home, of food at home.



The next slide reveals the consistent negative trends in real, hourly, and weekly earnings as I have discussed. Note that weekly earnings, which is the second bar in each one of those months, are falling more quickly than hourly and that is due to the declining weekly hours of work in a softening labor market.



And finally, the last table there compares the wages of low wage workers to commodity prices over the past five years. If you take the wages of low wage workers in 2003 and 2008 and you examine just how much gas, milk, apples, flour, those commodities, the staples that the wage can buy, you see the significant decline in gallons of milk, of course gallons of gas, of apples. The hourly wage of low wage workers used to buy a lot more flour, rice, bread, than it currently does.

How Much Commodity Does an Hour's Wage Buy?
2003 vs. 2008

	Gas	Milk	Apples	Flour	Rice	Bread
2003	4.9 gal	2.9 gal	7.8 lbs	23.7 lbs	17.7 lbs	7.7 lbs
2008	2.4 gal	2.4 gal	7.1 lbs	17.0 lbs	13.1 lbs	6.5 lbs

Note: Data are from BLS and for the 2nd quarter of each year. Gas is unleaded gasoline.

Typically various programs that have been considered in the context of fiscal stimulus, among those programs food stamp benefits, as I noted, create the largest bang for the buck. According to a study by Moody's Economy.com, for every dollar spent on the program, real GDP grows by $1.73. Of the thirteen tax cuts or spending increases considered, food stamps had the largest multiplier effect of all the thirteen different stimulus components considered in this study.

Now, typically implementation of a food stamp expansion is discussed in terms of ratcheting up the benefits of food stamp recipients as opposed to expanding eligibility guidelines, or covering more persons. But given the point regarding missing eligibles from the program, Congress might consider some combination of the two approaches. Both raising the benefit level and devoting some resources to boosting states' administrative and outreach capacity with the goal of identifying and signing up more eligible families that are currently not on the program.

Thank you.

[The statement of Jared Bernstein follows:]

PREPARED STATEMENT OF JARED BERNSTEIN, SENIOR ECONOMIST, ECONOMIC POLICY INSTITUTE

Chairman Spratt, Ranking member Ryan, I thank you for the opportunity to testify, and I commend the committee for targeting this critical issue of rising food prices and the resulting budget constraints facing families both here and abroad. While there are many dimensions to this issue, including international shortages and the underlying causes of rising global food prices, my testimony will focus on one aspect of the rise in these costs: the food challenge facing low-income families in this country.

Of course, many Americans are facing steep economic challenges. Prices are rising quickly across the board, with inflation, driven largely by food and energy costs, rising at 5% over the past year, and 6.1% for groceries (food purchased specifically for at-home consumption). A year ago, those inflation rates were 2.7% and 4.6%.

While even families with significant resources tell pollsters they are experiencing financial stress, a number of factors render the current period particularly challenging for low-income families. First, in part due to the weak and highly unequal recovery of the 2000s, poverty is actually higher now than it was in 2000 and median family incomes, adjusting for inflation, are lower.[1] Second, as discussed below, current labor market conditions are leading to broad losses in real earnings. Measured on a year-over-year basis, Bureau of Labor Statistics data show that real earnings are down every month since last October. And of course, home values are declining, lowering the net worth of homeowners, millions of whom face defaults on their mortgage loans and even foreclosure.

These factors are all germane to the topic of today's testimony. As noted, food prices are rising faster than overall inflation, and as I stress below, low-income families spent a larger share of their income on food. Second, there is evidence that the poor pay higher food prices, and that they face slightly faster food price inflation. United States Department of Agriculture data on food budgets facing low-income families show even faster price increases. Over the past year, their low-cost budget for a family of four with two children rose 9.6%.

The combination of these factors is giving rise to steep increases in the food stamp rolls, which in April (most recent data) hit their second highest level on record, 28.1 million, a 1.8 million increase over last April. Even with this increase, the Food and Research Action Council (FRAC) points out that one out of three eligible persons fails to access the food stamp rolls.

Taking these facts and trends into account, I recommend that Congress consider investing increased resources in the food stamp program, a step that was proposed, though not taken, in the first stimulus package that passed earlier this year. As I stress in my conclusion, including a food stamp expansion in a second stimulus would fulfill two purposes. First, it would help to alleviate some of the budget constraints documented below. Second, it would act as an effective stimulus, as an increase of food stamp grants has been found to create the "biggest bang for the buck" in terms of its multiplier effects.

FOOD PRICES AND FAMILY BUDGETS

The United States Department of Agriculture website section on food prices begins with this assertion:

"In 2008, the Consumer Price Index (CPI) for all food is forecast to increase 4.5 to 5.5 percent, as retailers continue to pass on higher commodity and energy costs to consumers in the form of higher retail prices. The CPI for food increased 4.0 percent in 2007, the highest annual increase since 1990."[2]

The food category includes both food purchased for home consumption and food away from home. The analysis in this paper focuses on both of these, with an emphasis on the latter, because groceries—food at home—is the significantly larger budget category for low-income families, and because, unlike food away from home, it is non-discretionary.

Consumer Expenditure Data reveal that groceries comprise a significantly larger share of the food budget for low-income families. In 2006, for families in the bottom income fifth, food in total comprised 15.6% of spending, while food at home was 10.5%, or ⅔ of food expenditures. For families in the highest fifth, food at home was 50% of food spending (the relevant shares were 10.9% overall and 5.5% for food at home).

Figure 1 shows the rate of price growth for food at home and all items in the CPI since 2000. The two measures grew at different rates over these years, with food prices behind overall prices in some years and ahead in others. But in the last three and a half years, the pattern has been clear: food prices have jumped significantly ahead of overall prices. Thus far this year grocery prices are up 5.6% compared to 4.2% of overall prices.

Of course, the other key consumer good that has been speeding ahead of overall inflation in recent months is energy. In fact, once we take gas and food prices out of the overall index—which leaves the so-called core price index, often cited by the Federal Reserve—inflation was up only 2.4% this year (annualized). Clearly, these two commodities are currently driving prices up much faster than the other items in the consumer market basket.

These values are averages, of course, and the focus of my testimony is on lower-income families whose budgets are more stressed by higher prices. By dint of their lower incomes, and often, their lack of assets and borrowing constraints, these families have less "wiggle room" in their budgets and have to shift from one category to another to make ends meet when an inelastically demanded good like food or gas rises in price. Also, as I stress in a later section, the weakening economy is eroding the wages and incomes of many families right now, right when these commodity prices are spiking.

Figure 2 shows the variation around the average budget share for all food and for food at home. Each bar represents the share of expenditures on food for families ranked by their income. The lowest income families spend 10.5% (15.6%) of their expenditures on groceries (all food), compared to about 8% (13.5%) for middle-income families and 5.5% (10.9%) for families in the top fifth. This expenditure pattern is characteristic for necessities, since families tend to purchase relatively similar amounts on these types of items compared to "luxury goods." Note, for example, that the ratio of food at home expenditures of the top to the bottom fifth was 2.4 in 2006, while the same ratio for overall spending (including all expenditures, not just food) was 4.6.

Thus far, we have established that low income families spend more of their budgets on food, and that food prices are rising faster than average, implying a greater consumption burden on these families relative to higher income families. But we have only looked at average food prices. Do the poor face higher food prices relative to those faced by higher income families? And do they rise more quickly?

Throughout the years, researchers have found this to be the case. Part of this stems from simple exploitation of vulnerable populations. For example, there is evidence from the recent meltdown in housing markets suggesting the poorer households were steered into more expensive loans. Part also stems from reduced mobility of poorer persons such that they do not have the same mobility to avoid relatively bad deals.

Most recently, Matt Fellowes finds the following:

"About 4.2 million lower-income homeowners paid higher than average prices for their mortgages in 2004. About 4.5 million lower-income households paid higher than average rates for auto loans. And countless more paid higher prices for other necessities like basic financial services, food and insurance than did their wealthier neighbors." [3]

By comparing trends in the USDA thrifty (lowest cost) and low-cost food plans to those in the CPI, we can get a sense of how the food prices faced by low-income families are trending in recent years.[4] Figure 3 plots the prices of the two low cost food budgets (four-person family with two young children) against that of the CPI food-at-home index using data from June in each year. Over the full period, the low-income budgets grow about 36% each compared to about 27% for the CPI food-at-home index. Much of the gap between the two series evolved over the past two years. Between 2007 and 2008, for example, the thrifty budget rose 8.4%, the low-cost budget was up 9.6%, while CPI food-at-home was up 6.1%.

WAGES AND FOOD

Though the economy is not officially in recession, key aspects of current economic conditions are clearly recessionary. The job market in particular has notably weakened, with net employment down about 440,000 jobs, and unemployment up about a point compared to one year ago, to 5.5%. The underemployment rate, a more comprehensive measure of diminished job opportunities, was 9.9% in June.

The slowing job market has meant diminished wage pressure and fewer hours of work. At the same time, prices, driven by energy and food, have spiked. The result, as shown in Figure 4, is a consistent negative trend in real wages. The figure plots the annual changes in the average hourly and weekly earnings of the 80% of the workforce in blue-collar or non-managerial jobs. As of late 2007, both series were falling in real terms. Note that weekly earnings—the second bar for each year—are falling more quickly than hourly earnings, due to declining weekly hours worked.

These wage dynamics are, of course, a stressor on family budgets. In order to simply quantify the issue for low-wage workers, I took ½ of the average production, non-managerial wage and divided this by the price of a gallon of unleaded gas and five consumer food staples, as shown in the table. Half the production worker wage is a good proxy for low wages, as it tends to be at a level between the 10th and 20th percentile wage and it moves consistently with these measures. We use it here because since it is released monthly, it allows for up-to-date analysis.

Table 1 looks at the change in wages and commodity prices over the past five years. Back in the second quarter of 2003, this hourly wage could buy just under five gallons of gas, 2.9 gallons of milk, 7.8 pounds of apples, etc. Of course, gas is much less affordable, and given the price and wage movements, the low-wage workers can get only 2.4 gallons in the most recent quarter, half a gallon less than five years ago. An hour of work yields seven fewer pounds of flour, five fewer pounds, and about one pound less of bread.

CONCLUSION

All Americans are facing rising prices right now, led by energy and food. But a few factors make this challenge particularly acute for low-income families. First, food prices are rising faster than overall inflation, and low-income families spent a larger share of their income on food. Second, there is evidence that the poor pay higher food prices, and that they face slightly faster food price inflation. Third, the downturn in the job market has led to fewer job opportunities and slower wage growth.

How should Congress consider responding to these stressors? One useful policy response would be to increase food stamp benefits as part of a second stimulus package.

The rationale for a second stimulus package is beyond my scope for this testimony.[5] I will only note that most analysts believe the first stimulus package will raise the economy's growth rate in the middle of this year, but that real GDP growth will then slow to well below trend, barring further government intervention. In this regard, Congress has begun discussing the utility of a second stimulus package.

Though an increase in food stamp benefits was proposed in the first stimulus debate, it was ultimately left out of the first stimulus, which largely emphasized checks to households and tax cuts to businesses. There are two reasons to include a food stamp expansion in the next package, if there is one.

First, increasing food stamp benefits would offset some of the budgetary constraints stressed in my analysis. Of course, food stamp eligibility—generally, family income must be below 1.3 times the poverty threshold to get the benefits—will preclude some who need food assistance from the program. But among those who do get food stamps, an extension of benefits is needed.

As the Food Research Action Council documents, food stamp rolls stand at historically high levels. Most recent data, from April, show 28.1 million recipients, the second highest monthly number in the history of the program, and 1.8 million above last year's level. Even so, FRAC stresses that only 2 out of 3 eligible persons access the program.[6]

Second, research suggests that among the various programs typically considered in the context of fiscal stimulus, food stamp benefits provide the biggest "bang for the buck." According to a study by Moody's economy.com, for every extra dollar spent on the program, real GDP grows by $1.73. Of the thirteen tax cuts or spending increases considered, food stamps had the largest so-called multiplier impact.

The Congressional Budget Office agrees with the thrust of this analysis, stating that "the vast majority of Food Stamp benefits are spent extremely rapidly. And because Food Stamp recipients have low income and few assets, most of any additional benefits would probably be spent quickly." [7]

Typically, implementation of a food stamp expansion is discussed in terms of ratcheting up the benefits of food stamp recipients, as opposed to expanding eligibility guidelines and covering more persons. Given the FRAC point regarding missing eligibles from the program, Congress might consider some combination of the two approaches: both raising the benefit level and devoting some resources to boosting states' administrative and outreach capacity with the goal of identifying and signing up eligible families that are currently not on the program.

ENDNOTES

[1] The poverty rate was 11.3% in 2000 and 12.3% in 2008. My forecast is that poverty fell to 12.1% last year.

[2] *http://www.ers.usda.gov/Briefing/cpifoodandexpenditures/consumerpriceindex.htm*

[3] *http://www.brookings.edu/opinions/2006/0807metropolitanpolicy—fellowes.aspx*

[4] *http://www.cnpp.usda.gov/USDAFoodCost-Home.htm*

[5] See this testimony for a discussion of the rationale for a second package: *http://www.epi.org/content.cfm/webfeatures—viewpoints—testmony—bernstein—squeeze*

[6] *http://www.frac.org/html/news/fsp/2008.04—FSP.htm*

[7] *http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ—Stimulus.pdf*

Chairman SPRATT. Thank you very much. Ms. Sheeran, we are glad to have you. Sorry you are late and got held up in some traffic, but we will be prepared and pleased to receive your testimony at this point in time. And we thank you very much for coming.

STATEMENT OF JOSETTE SHEERAN

Ms. SHEERAN. Thank you, Mr. Chairman. They have shut down the highway but I am glad I made it here.

I want to thank you and the distinguished members of this Committee. It is a pleasure and an honor to testify before you today. Before I begin I want to acknowledge this Committee's role and leadership in the cause of fighting hunger and malnutrition at home and around the world. I thank Committee members that have been longstanding leaders in the fight against hunger. I see Jim McGovern here and others who have really championed this cause. And there is no time that it is needed more than today.

All of your work is one reason WFP can provide lifesaving food and assistance to 90 million people this year, 80 percent of whom are women and children. That includes 3 million people in Darfur alone who depend on WFP for their daily sustenance. Your role, however, has never been more important than today as we need a bold new approach to food assistance in the face of the global food crisis. And it is important that members of this Committee hear what I hear from all over the world, in refugee camps, villages, HIV/AIDS clinics, schools, orphanages that I visit: "Thank you, America." The American people provide food for more than half of the hungry in the world who receive food assistance. This is a noble legacy, carried on since the Marshall Plan, and supported by Congress and every President from Eisenhower, to Kennedy, to today, who launched Food for Peace, Kennedy and Eisenhower.

Today, WFP and the world's hungry face the biggest challenge in a generation with the world food crisis. Mr. Chairman, two weeks ago the U.S. Department of Agriculture reported that some 130 million additional people have joined the ranks of the hungry due to the global food crisis. This is a silent tsunami targeting the most vulnerable. It knows no borders. Without unified global action the world's bottom billion could become the world's bottom 2 billion virtually overnight as their purchasing power is cut in half from soaring food and fuel prices.

Of course, we are all consumers when it comes to food. Food is so basic to human survival that its denial is a denial of life itself. Some say there are only seven meals between civilization and anarchy. On the seventh meal lost, all begins to fall apart as people are reduced to fending for their families' survival. Ensuring access to adequate, affordable food and nutrition is certainly one of the most fundamental roles of government and indeed of civilization itself.

Today the global food supply system is groaning under the strain of skyrocketing demand; crop loss due to drought, floods, and severe weather; and increasing demand on the use of food for energy and other supplies. This no doubt presents a huge opportunity for many farmers and I am a long term optimist on this issue. But this is hitting poor consumers hard.

Last June, I warned we were facing a perfect storm for the world's most vulnerable. Today, I believe we are in the eye of that storm. News reports and images from the deadly riots in Haiti, triggering the collapse of the government, and elsewhere around the globe, are stark reminders that food insecurity threatens not only the hungry but peace and stability itself.

Much of the global reaction, panic buying, hoarding, speculation, price controls, and export restrictions, are exacerbating the problem. In fact, thirty countries have imposed new food export restrictions making it difficult for WFP to access vital supplies.

Since mid-2007 we have seen the most aggressive pattern ever of global price increases for basic food commodities. In the past five years, from 2002 to 2007, we at WFP faced a 50 percent increase in the cost of procuring food for our programs. Then, in only nine short months, between June of 2007 and February of 2008, we saw another 50 percent increase. And these increases are not a thing of the past. On March 3rd WFP was buying rice in Asia at $430 a metric ton. Five weeks later it was $780 a metric ton. Two weeks after that $1,000 a metric ton.

As you all know well, this is pinching consumers hard even here in America, as we have just heard. But imagine the more than 1 billion people in the world living on less than $1 a day, already spending most of their income on food, up to 80 percent, trying to keep up. Imagine poor import dependent nations, such as Haiti, Liberia, or Afghanistan. Not even the best governance on earth can overcome such odds. Stock and cash reserves in these nations are being drawn down to all time lows and just when the world needed WFP most we were able to reach fewer people than ever.

Let me illustrate the impact the soaring prices have had on WFP. WFP reaches up to 20 million children a year with lifesaving meals at school, thanks in large measure to the wonderful McGovern-Dole School Feeding Program. Thousands receive a cup like this, which belonged to a girl names Lillian from Rwanda, filled with nutritious porridge. For those of you who have visited our school feeding programs you know that for many of the children, this is their most precious possession as it is the only cup of food they can rely on each day. But by January of this past year, simply due to soaring food prices, we had 40 percent less food in this cup.

That nutritional chasm will have long term consequences for those children, as we know. And now research demonstrates that the nutritional blow to children under two years old forced to survive on mudcakes in Haiti, or moldy cassava in Burundi, will devastate them for a lifetime. WFP has worked closely with the Secretary General of the United Nations Task Force on the Food Crisis and with the World Bank to offer a coherent global approach to help those nations hit hardest.

Mr. Chairman, together these challenges have culminated in a global crisis that requires U.S. leadership. As you know better than anyone, that leadership begins here in these committees, and in this Committee, as you set the priorities for all the work of the U.S. government here and abroad. Mr. Chairman, I am asking you and this Committee to pause and understand that I am not here to ask for a one time handout at this difficult moment. I am asking the Committee to consider making global food assistance a higher priority so that we might be able to get ahead of the hunger curve.

The cost of feeding the hungry has doubled in the past year due to these soaring prices. WFP's workload has doubled. The World Bank predicts these high prices will be with us until 2012. If so, the humanitarian crisis will continue. I recognize this is no small request. I have made this request throughout the world, not only to the European parliaments but to Saudi Arabia and other who can help at this time.

Just briefly to give some background, the World Food Program, as you know, was created by you and the nations of the world as the world's urgent hunger institution. When all else fails, you turn to us to prevent life threatening food and nutrition vulnerability. Today we manage a global lifeline that can reach any corner of the world in 48 hours, as we did during the war in Lebanon and after the cyclones in Bangladesh and Myanmar. WFP deploys thousands of planes, ships, helicopters, barges, and when needed, donkeys, camels and elephants. Our motto is, "Nothing gets between WFP and a hungry child." We are 100 percent voluntarily funded, receiving no core or assessed funds from any source. In this way we are unique in the UN system. We are as efficient as we are effective, using only 7 percent of each dollar you give us on overhead, and deploying state of the art monitoring ensuring food delivery.

WFP provides concrete help on the ground in often dangerous and difficult conditions in a way that few other institutions in the world can or do. And it is often dangerous work. So far this year in Darfur alone 83 of our trucks have been highjacked, and 41 of our drivers are still missing in action. Globally this year 13 people have lost their lives in service to WFP. Ships carrying our food are attacked by pirates off the coast of Somalia. And unless we have naval protection from nations we cannot get that lifesaving food into Somalia. We call on all nations to provide these escorts, which have proven an essential and effective deterrent.

This is the daily reality we are dealing with at WFP. But there is no alternative. We must provide humanitarian food assistance to those who are in need. This is one of the oldest, most basic humanitarian instincts the world has. If someone does not have enough food, we reach out and help those in need. We have seen that hunger can be defeated and local food security can be restored and achieved. The world knows how to do this. But we are facing perhaps our biggest challenge yet.

The world and America has been generous in helping us to address these challenges. During the past three months we have gone through an unprecedented resource mobilization effort to cover the soaring cost of food, and to ensure that cups like this remain full. Since March we have received $1 billion in new contributions, including a historic $500 million donation from the Kingdom of Saudi Arabia. That money is being used to purchase and distribute food in 60 nations.

On June 30th President Bush signed a supplemental appropriation bill sent to him from Congress, thank you, that included a greatly needed $850 million to address new emergency needs. By mid-July, working with our strong partners at the Department of Agriculture, USAID, and Food for Peace, that assistance was already streaming out the door to meet urgent needs in 17 countries, much of it headed to the people of Darfur, Somalia, Ethiopia, Afghanistan, and Zimbabwe. By the middle of August, a second traunch will be on its way.

Mr. Chairman, as much as we have done we must do more. Your Committee is critical here because we are at a juncture where we can no longer handle urgent food needs on an ad hoc basis. Rather, we must understand that as we cope with these high food prices we pose a greater threat of civil unrest and a threat to fragile democracies around the world. Getting ahead of this hunger curve will require your help. We have made much progress in the past four decades, actually bringing the overall percentage of the world's hungry down to 17 percent from 37 percent in the 1960's. But make no mistake, unless we want to see these important gains reversed we can no longer continue to do business as usual.

So I would like to sum up in two specific requests. We need the U.S. to continue as the global leader in the fight against hunger. The world looks to the U.S. to provide this leadership. Specifically, we need our food aid budgets to be bolstered and we need to ensure that we have the flexibility to deliver that food quickly. And second, in that flexibility we need to be able to, the markets are so dangerously tight now, we need, as we did in the supplemental, to provide some cash to be able for us to meet emergency needs to cover the gap as we wait for vitally needed food to arrive.

Chairman SPRATT. Ms. Sheeran, would you mind if I asked you to stop right there? We will come right back——

Ms. SHEERAN. Okay.

Chairman SPRATT [continuing]. For your conclusion. But we have about three minutes to make it to the floor.

Ms. SHEERAN. Excellent. Thank you.

Chairman SPRATT. We have two votes after this vote, but they should be five minute votes. We will be back in about fifteen minutes.

Ms. SHEERAN. Thank you, sir.

Chairman SPRATT. We beg your indulgence. Thank you.

Ms. SHEERAN. Thank you.

[Recess.]

Chairman SPRATT. Let us resume the hearing. And Ms. Sheeran, you were just at the conclusion of your statement. You can take your time and wrap it up as you like. But the floor is yours again.

Ms. SHEERAN. Thank you so much, Mr. Chairman. And I will just sum up. The world food crisis has doubled the cost and multiplied the urgent needs of the hungry, not only for the World Food Program but for all of those working to stem the tide. From CARE, to World Vision, to Oxfam, to Catholic Relief Services, Bread for the World, and others. We will all do the job humbly and effectively, but we cannot do it without you.

This is a national security issue. Fragile new democracies such as Liberia are being rocked to their core as food riots have hit forty nations. I guarantee you the investment now avoids much bigger costs later.

I invite this Committee to come visit the field, to witness the results of your generosity. Come here for yourself, from leaders such as President Kufuor in Ghana, or Johnson-Sirleaf in Liberia, the transformative power of American food assistance.

Mr. Chairman, when I travel the world I take this red cup with me and I am amazed at the number of people who are moved to tears because they personally experienced a cup of food from America at some point in their life. I have met ministers in Europe, in Japan, in Africa. In fact, the head of the Development Committee in the European Parliament, when I held this up, he was moved to tears. And he said, “I grew up on a cup of food from America.” We knew at that time that that is what peace and security was about, and in fact America made the deliberate decision that we had to provide food security before we could introduce democracy as a forceful idea and a powerful idea in Japan and in Europe.

Mr. Chairman, I want to thank you and I want this Committee to know that we understand that in a democracy no one person can decree how a nation’s treasure is spent. But we do know that the role of this Committee is vital. And that none of the assistance and help that we are able to provide would happen without the active engagement of this Committee. We would be honored to welcome you to the field to see the results of that work. And I thank you so much for your attention to this matter today.

[The statement of Josette Sheeran follows:]

PREPARED STATEMENT OF JOSETTE SHEERAN, EXECUTIVE DIRECTOR, UNITED NATIONS WORLD FOOD PROGRAMME

Mr. Chairman, and distinguished members of the Budget Committee, it is a pleasure and an honor to testify before you today. Before I begin, Mr. Chairman, I want to acknowledge your committee’s role and leadership in the cause of fighting hunger and malnutrition around the world. All of your work is one reason WFP can provide life-saving food and assistance to 90 million people this year; 80 percent of whom are women and children. That includes three million people in Darfur alone who depend on WFP for the only daily sustenance they receive.

Your role, however, is never more important than today—as we need a bold new approach to food assistance in the face of a global food crisis that is hitting the world’s most vulnerable hardest.

It is important that members of this committee hear what I hear all over the world in refugee camps, villages, HIV/AIDS clinics, schools, slums, and orphanages that I visit: Thank you, America. The American people provide more than half of the world’s total food assistance and this is understood and appreciated by those who receive the benefits. This is a noble legacy carried on year after year and it will never be forgotten or taken for granted. Your efforts have meant so much. But I am here today to ask for more.

Mr. Chairman, two weeks ago the US Department of Agriculture reported that some 130 million additional people have joined the ranks of the hungry due to the global food crisis. These numbers are but the latest articulation of a hunger crisis without borders. As I am sure the members of this committee know all too well, high food and fuel prices are taking a toll on your constituents right here in America. But imagine what these prices mean to the world's poorest—the so-called bottom billion living on less than $1 a day.

Without unified global action, the world's bottom billion could become the world's bottom two billion, as their purchasing power is cut in half from soaring food and fuel prices. This is a silent tsunami hitting the world's most vulnerable, 80 percent of whom are women and children.

Of course, we are all consumers when it comes to food. Food is so basic to human survival that its denial is a denial of life itself. Some say there are only seven meals between civilization and anarchy—at the seventh meal lost, all begins to fall apart as people are reduced to fending for survival. Ensuring access to adequate, affordable food and nutrition is certainly one of the fundamental roles of government, and, indeed, of civilization itself.

Today, the global food supply system is groaning under the strain of sky-rocketing demand, the soaring cost of inputs, depleted stocks, crop loss due to drought, floods and severe weather, and increasing demand on the use of food for energy and other supplies. Last June, I warned we were facing a perfect storm for the world's most vulnerable. Today, I believe we are in the eye of that storm.

News reports and images from deadly riots in Haiti, triggering the collapse of the government, and elsewhere throughout the globe, are stark reminders that food insecurity threatens not only the hungry but peace and stability itself.

Much of the global reaction—panic-buying, hoarding, speculation, price controls and export restrictions—threaten to exacerbate the problem. In fact, thirty countries have imposed new food export restrictions, making it difficult for WFP and many others to procure and deliver food to areas of need.

Since mid 2007, we have seen the most aggressive pattern ever of global price increases for basic food commodities. In the five years from 2002 to 2007, we at WFP faced a 50 percent increase in the cost of procuring food for our programs. In only nine short months, between June 2007 and February 2008, we saw another 50 percent increase.

I will give an example: On March 3, WFP bought rice at $430 a metric ton. Five short weeks later the price had jumped to $780 a metric ton and two weeks later it reached $1000 a metric ton. We have seen similar skyrocketing prices for other staples like corn, wheat, and vegetable oil.

As you all know well, this is pinching consumers hard even in highly developed nations. But imagine the more than one billion people in the world living on $1 a day, already spending most of their income on food, trying to keep up. Not even the best governance on earth can overcome such odds. Stock and cash reserves in these nations are being drawn down to all-time lows as in Liberia, Senegal and other countries. And just when the world needed WFP most, we were able to serve fewer people than ever.

Let me illustrate the impact that soaring food prices has had on WFP. WFP reaches up to 20 million children a year with life-saving meals at school. Thousands of schoolchildren receive nutritious porridge in a red cup like the one I carry across the world, and that belonged to Lillian from Rwanda. For those of you who have visited our school feeding programs, you know that for many of the children, this is their most precious possession as it is the only cup of food they can rely on all day. By January of this year, just simply due to soaring food prices, we were able to fill this cup only 60 percent with the same contribution. Many children had 40 percent less porridge; 40 percent fewer kilo calories; 40 percent fewer nutrients; and stomachs that were 40 percent less full. That nutritional chasm will have long-term consequences for those children, as we know.

WFP has been working closely with the Secretary-General's task force on the food crisis and with the World Bank to help those nations hardest hit. For example, early this year, the Government of Afghanistan asked us at WFP to support an additional 5 million people thrust by soaring food prices into the ranks of the hungry. But with food prices expected, as the World Bank predicts, to be with us at least through 2012, the crisis is not easing. A few weeks ago, the Government asked us to extend this assistance for at least another 12 months. Clearly, the food crisis is affecting more people for longer than expected in an already fragile nation.

In the Horn of Africa, prolonged drought and civil unrest in some areas are being exacerbated by stubbornly high food prices. In Somalia, WFP expects that the number of people it feeds will climb from more than one million per month to 3.5 million by December. In Ethiopia, we are expanding our emergency program by an additional 3.7 million people in addition to the four million already in need under our existing program. Based on recent assessments, WFP will need to reach 14.3 million people in the Horn of Africa region this year—constituting almost 20 percent of our work worldwide.

Mr. Chairman, together, these challenges have culminated in a global crisis that requires US leadership. As you know better than anyone, that leadership begins here in this committee, as you set the priorities for all the work of the US government here and abroad.

Mr. Chairman, I am asking you to pause and understand that I am not here to ask for a one-time hand-out for this difficult moment. I am asking the committee to consider making global food assistance a higher priority so that we might get ahead of the hunger curve. I recognize that this is no small request.

A REVOLUTION IN FOOD AID

Before I elaborate, let me give some background now on WFP and where we stand in meeting these challenges and the things we are doing and will do to address them.

The World Food Programme was created by the nations of the world, as the world's urgent hunger institution. When all else fails, you turn to us to prevent life-threatening food and nutrition vulnerability.

Today, we manage a global lifeline that can reach any corner of the world in 48 hours—as we did during the war in Lebanon, and after cyclones hit Bangladesh and also Myanmar. WFP deploys thousands of planes, ships, helicopters, barges and, when needed, donkeys, camels and elephants. Our motto is: nothing comes between WFP and a hungry child.

We are the logistics coordinators for the UN system, delivering not only food, but an array of life-saving goods, including medicines, for dozens of partners. WFP provides global services, such as our Humanitarian Air Service, which ferries 400,000 humanitarian and development workers in and out of disaster zones each year—including 10,000 aid workers to and from Darfur each month.

WFP is 100 percent voluntarily funded; receiving no core or assessed funds from any source. In this way, we are unique in the UN system.

WFP has been undergoing a revolution in how it does business in order to respond to new challenges. When WFP was founded back in the early 1960s, it was a surplus food program with the nations of the world sharing their extra bounty when they had it. Times have changed; there are virtually no surpluses available globally.

Today, more than half of our budget is based on cash, allowing us to purchase food from local farmers throughout the developing world. Last year we spent $612 million—80 percent of our cash—buying food in 69 different developing nations, helping break the cycle of hunger at its root.

The food we buy locally is used for emergency interventions as well as for safety net programs, such as school feeding. Each year, WFP provides school meals for 20 million children throughout the developing world—thanks to generous funding of the McGovern-Dole program. We have learned that if a school meal or take-home ration is provided to girls, it virtually guarantees that parents who would never do so otherwise, allow their girls to attend school. It is the most effective human rights program for girls I have ever seen.

We seek to ensure our hunger responses are supportive of local markets and farmers whenever possible. Let me mention an example:

In Senegal—a food deficit nation—there is a surplus of salt but most of the salt for local consumption is not iodized. WFP has contracted with 7,000 village salt producers—most of whom are women—and worked with the Micornutrient Initiative to ensure access to training and equipment needed to iodize the salt. Now they have a sure income from their sales to WFP, and now the salt they sell locally is iodized, helping prevent goiter, which President Wade has called one of the biggest health challenges in Senegal. This is the type of win-win solution that can help break the cycle of hunger and undernutrition at its root.

Building on these successes, WFP is launching a bold initiative to enhance our local purchasing program called Purchase for Progress, or P4P. It is designed to use WFP's purchasing power to help break the cycle of poverty and hunger among poor farmers—essentially bolstering the incomes and agriculture know-how of farmers through the markets.

The World Food Program will also incorporate best practices globally on affordable access to vital nutrition, especially among the most nutritionally vulnerable, in particular children under two years of age, who carry the burden of undernutrition for life both physically and mentally. We are asking not only if the cup is full, but what is in the cup? These "smart" interventions are the critical foundation for nations to beat the cycle of hunger and poverty.

The initiatives I have been describing are included in WFP's new Strategic Plan, approved in June by our Board. They mark a historic shift from WFP being a food aid agency to what we are calling a food assistance agency. By this we mean that, in all of our operations, we will ask how our interventions meet not only the critical emergency needs, but, whenever possible, help ensure that we break the cycle of hunger at its roots. In this Strategic Plan, WFP has introduced a more nuanced set of tools that allows us to ask what is causing the hunger and which interventions would be most appropriate to address those conditions.

This is all part of what I call WFP's 80-80-80 solution: today 80 percent of WFP's cash for not only food, but also land transport is spent locally and 80 percent of WFP's staff is locally hired. This helps build permanent local capacity and knowledge about food security.

WFP provides concrete help, on the ground, in often dangerous and difficult conditions, in a way that few other institutions in the world can, or do. Our staff feeds five million people a day in Sudan which is our biggest operation, as well as in places like Somalia and Afghanistan, delivering food and nutrition, while risking their lives in the line of duty. So far this year, in Darfur alone, 83 of our trucks have been hijacked and 41 of our drivers are still missing in action. This year alone, 13 people have lost their lives in service to WFP—seven in Sudan, five in Somalia and one in Kenya.

Ships carrying our food are attacked by pirates off the coast of Somalia and unless we have naval protection from nations we cannot get that life-saving food into Somalia. We call on all nations to provide these escorts, which have proven an essential and effective deterrent.

This is the daily reality we are dealing with at WFP. But there is no alternative. We must provide humanitarian food assistance to those who are in need. This is one of the oldest, most basic humanitarian instincts the world has—that if someone does not have enough food, to reach out and help those in need. We have seen that hunger can be defeated and local food security can be restored and achieved. The world knows how to do this. But we are facing perhaps our biggest challenge yet.

RAMPING UP INTERNATIONAL ASSISTANCE

The world—and America—has been generous in helping us to address these challenges. During the past three months, we have gone through an unprecedented resource mobilization effort to cover the soaring cost of food, and to ensure these cups could remain full. We wrote to Heads of State and governments and traveled the globe urging action, testifying before parliaments and raising awareness. And the world came together to stand with those most vulnerable among us. Many in the US House and Senate have been extraordinary champions of this effort. I thank you. Since March, we received $1 billion in response to a $755 million appeal to help us cover increased program and operational costs due to high food and fuel prices. The $1 billion includes a $500 million donation from the Kingdom of Saudi Arabia. That money is being used to purchase and distribute food in 60 nations.

On June 30, President Bush signed a supplemental appropriation bill sent to him from Congress that included a greatly needed $850 million to address new emergency needs. By mid July, working with our strong partners at the Department of Agriculture and USAID, we had already mobilized much of that funding to meet urgent needs in 17 countries—much of it headed to the people of Darfur, Somalia, Ethiopia, Afghanistan, Myanmar, and Zimbabwe. By the middle of August a second tranche will be on its way.

Mr. Chairman, as much as we have done, we must do even more. Your committee is critical here, because we are at a juncture when we can no longer handle urgent food needs on an ad hoc emergency basis. Rather, we must understand that more hungry people are coping with higher food prices, posing a greater threat of civil unrest. Getting ahead of this hunger curve will require a step increase in funding that begins right here in this Budget Committee. We have made progress over the past four decades—bringing the overall percentage of the world's hungry down to 17 percent from 37 percent in the 1960s. But make no mistake: Unless we want to see these important gains reversed, we can no longer address needs on an ad hoc basis. So let me be clear in my request to members of this committee.

- First, we need a strong message to the world that the US will continue to lead global efforts to address hunger. The world looks to the US to provide leadership with reliable, flexible food assistance. Specifically, we need the food aid budgets to be bolstered so that supplemental appropriations are not required year-after-year to fill the red cup for children who are hungry today.

• Second, WFP needs the US to provide more flexibility—both in terms of allowing us to use in-kind contributions where we need them most urgently; and in providing some cash so that we can buy directly from local farmers when people have lost their livelihoods, but food remains available for purchase.

• Finally, we need America's help ensuring that all governments let us purchase food for humanitarian purposes, exempt these food purchases from export restrictions and extraordinary export taxes, and permit the unhindered and safe movement of humanitarian food within and across borders.

Mr. Chairman, this committee presides over a difficult debate: how to balance the need to provide more food assistance with other pressing needs, both domestic and foreign. You must balance short and long term needs, short and long term domestic needs with strategic and foreign policy interests, all within fierce budget constraints. It is difficult, important work.

As you do this work, I would urge you not to let these difficult choices be treated within a zero sum framework.

The entirety of the US budget for international assistance comprises just 1 percent of the federal budget.

As the world moves forward in continuing to respond to increasing needs from the global food crisis and new emergencies, we need robust and rapid engagement. We need the world to understand that hunger ravages individuals, communities and nations.

Let us decide that hunger is no longer an acceptable part of the human condition. We actually know how to end hunger—many countries have done so. We have the science and technology to end hunger. The question is: do we have the moral and political will to do so?

Chairman SPRATT. Thank you very much. We will come back with questions, but let us proceed with our panel. Susan Berkowitz next from Appleseed in South Carolina.

STATEMENT OF SUSAN BERKOWITZ

Ms. BERKOWITZ. Chairman Spratt, members of the Budget Committee, I want to thank you for this opportunity to speak today on behalf of the South Carolina Appleseed Legal Justice Center about how rising food costs impact the low income community and the programs that serve them. And I also want to thank you for taking the time to have this hearing to look at this very important issue.

The rising cost of food is adversely impacting all Americans. Low income households are suffering the brunt of these escalating food costs with overextended budgets. For these households, the easiest personal line item to cut is often what is spent at the grocery store. Not just the quality of foods, but limiting the quantity of overall purchases.

In South Carolina our low income community has been dramatically impacted by the significant increase in food costs. South Carolina has the third highest rate of food insecurity and the second highest rate of very low food security in the entire nation. Over 630,000 South Carolinians experience hunger at least once a year. A family living at or below poverty will be forced to spend a large portion of its income on food and rarely has money in the household that they can access when the rapid increase in cost occurs.

In the last year the price of food has increased over 5 percent. The cost of a bare bones grocery bill for a family of four that meets the food stamp thrifty food plan saw an 8.5 percent increase. That is a $46 monthly increase. Now, there is a perception that the cost of living in South Carolina is low. But I can tell you for low income families in our State, they are struggling.

To my testimony I have attached two monthly family expenditure budgets. The first is a modest budget for a single parent supporting two children. The second is for a two-parent family with one child.

Almost all of the families who live at or below 200 percent of our poverty level outspent their income just for basic needs in our State. What this demonstrates is that the majority of low income households, despite working full time, are unable to absorb even a $46 increase in food costs each month.

Unfortunately, one way low income families manage to survive temporarily is by accumulating debt. Low income consumers are making desperate choices. They are living on credit cards, payday and auto title loans, that are sending them into the downward debt spiral. One elderly gentleman I recently helped used payday loans to, as he told me, "make ends meet." By the time he had finally contacted me he was facing eviction, his utilities were being terminated, and he had no food in the house because this temporary stopgap measure had overtaken all of his income. Purchasing food seemed to be the easiest item on his budget to eliminate. And I should tell you he ultimately ended up in the hospital with renal failure because this man was a diabetic.

Many working families are now turning to food pantries for the first time. The pantry in my hometown of Columbia, South Carolina is now open one evening a month to accommodate working families. Most of these families coming into the food pantry report their wages are not stretching as far due to rising costs. And of the households utilizing the food pantry approximately 50 percent were receiving food stamps, and many of these families come in desperate and destitute, apologizing for needing the food pantry. And what I have to explain to them when I meet with them is, "You do not have to apologize. You are doing the right thing by coming and taking care of your children."

Food stamps and WIC are critical programs to combat hunger. Approximately one in eight South Carolinians receive food stamps. The Food Stamp Program makes an enormous difference in the ability to purchase food for working poor, unemployed senior citizens, and the disabled. For those eligible the current benefit amounts do not meet their purchasing needs. And they have eroded even further over the last year. This needs to be corrected in our upcoming budget. The food stamp benefit level needs to be fully indexed to permit the allotment to keep up with food inflation. What was always a modest benefit package has eroded over the past few months. The Thrifty Food Plan, which serves as a national standard for a nutritious diet at a minimal cost, is used as the basis for food stamp allotments, and as I said earlier has seen an 8.5 percent spike. While there will be adjustments to the benefit allotment in October, it simply is not enough. When made, the adjustment will already be four months out of date. In addition, it will not change over the next twelve months despite the predicted rise in food costs.

Congress can address this problem for the coming fiscal year by anticipating the food price inflation that will occur and acting to offset some of it so assistance does not again fall short. Congress should consider properly reflecting the price in food costs that will take place over the next year by increasing the food stamp benefit for fiscal year 2009 from the benefit increases that are scheduled to take place in October 2008. This will ensure that the lag in food data prices is taken into account and households will be provided with sufficient resources, despite the rising costs over the coming year.

I also urge you to ensure that the Women, Infants and Children (WIC) Program is adequately funded in the next year. The supplemental foods provided by WIC Program are designed to meet participants' enhanced dietary needs for specific nutrients during brief but critical periods of physiological development. Over 50 percent of the women and children on WIC are members of families where at least one or both parents work outside of the home. The average South Carolina WIC caseload for fiscal year 2008 is almost 125,000 participants. The South Carolina WIC Program serves over 50 percent of the infants born in our State.

This increase in participation does not come without financial strain to the program. It can mean substantial delays, which are already being reported, before an applicant can be seen. The increase in food costs over the past year have caused food packages provided under WIC to become extremely expensive. While the agency has not done so yet, it may be forced to implement a priority system for who will be able to participate in WIC if the State does not receive increased funds.

Congress must provide sufficient funds for the WIC Program in fiscal year 2009. Given that Congress will likely first provide 2009 funding via a continuing resolution, it is essential that the CR provide increased funding to WIC rather than wait for the regular appropriation. That might be months later, and will most certainly mean that eligible women and children would be denied services while the Program is waiting for sufficient funding.

Low income families are feeling the impact of increasing food prices and facing terrible choices. Not paying the light bill or rent, using less quality daycare, or living in 95 degree heat with no air conditioning or fan. A single mother with no health insurance may choose to ignore the lump in her breast, or another may be juggling over a dozen payday loans in an effort to make ends meet.

The rapid rise in food prices, which are predicted to continue, are eroding the value of critical programs, especially food stamps and WIC. We must protect all of our citizens who are suffering from this economic downturn by helping them increase and maintain their purchasing power at the grocery store. And we must remember that these dollars pumped into our local economy will also help us all. Thank you.

[The statement of Susan Berkowitz follows:]

PREPARED STATEMENT OF SUSAN BERKOWITZ, DIRECTOR, SOUTH CAROLINA APPLESEED LEGAL JUSTICE CENTER

I want to thank the Chair and members of the Budget Committee for the opportunity to speak with you today about the impact rapidly rising food costs is having on low-income people, especially during this economic downturn. I am Sue Berkowitz, director of the South Carolina Appleseed Legal Justice Center. SC Appleseed is a non-profit law office dedicated to advocacy for low income people in South Carolina to effect systemic change by acting in and through the courts, legislature, administrative agencies, community and the media, and helping others do the same through education, training and co-counseling. For the past twenty-five years I have worked in the area of poverty law focusing my practice to the areas of consumer, healthcare and income supports. Through my work with SC Appleseed I have been a key participant in formulating state welfare and food stamp policy for the citizens who use these services in our state. In addition at SC Appleseed, we address predatory mortgage lending, payday lending, Medicaid, affordable housing, education, and immigrant issues. Our staff participates with a number of non-profits/service providers and works closely with many state agencies, including the one that administers the food and nutrition programs. Many state agencies and legislative committees request information and assistance from SC Appleseed staff because of their expertise in poverty, child, hunger, housing and consumer issues. SC Appleseed works to ensure that full representation is provided to the low income community through its advocacy and impact litigation work.

The rising cost of food, during this time of economic decline is adversely impacting all Americans as they are addressing the escalating costs of housing, energy and healthcare. Low income individuals and families are suffering the brunt of these additional food costs as their budgets are already overextended and they do not have resources to assist them. Income for basic needs such as housing, electricity, childcare and transportation is already stretched, making these families even more vulnerable to food insecurity. For these households, young and old, the easiest personal line item to cut is often what is spent each month at the grocery store. This is done by reducing not just quality foods such as fresh produce and dairy, but also limiting the quantity of overall purchases.

In my home state of South Carolina our low income community is being dramatically impacted by our country's significant increase in food costs. Hunger and food insecurity is a tremendous problem for low income South Carolinians that has been exacerbated by the tremendous increase in food costs over the past year. According to the USDA, 14.7% of South Carolina's total population was considered to be "food insecure" (the share of people who experience food insecurity at least once during the year) and 5.9% experienced very low food security between 2004 and 2006. This means annually 632,000 South Carolinians experience a food shortage. This is a 1.2% increase from 2001-2003. South Carolina has moved from having the sixth highest rate of "food insecurity" to the third highest rate, and the second highest rate of very low food security in the entire nation.

While nationally it is reported that almost 16% of households with children were food insecure in 2006, we know this is much greater for families in South Carolina. Slightly over 22% of South Carolina's children are living below the federal poverty level and 45.7% (467,254) are very low income living at or below 200% of the federal poverty level. It is estimated that one out of every four children in South Carolina is going hungry or at risk of going hungry. As we see escalating prices in food costs, this very discouraging number will only increase, putting more of our state's children at risk.

All households are feeling the pressure on family budgets due to the increase in food prices; our low-income families are experiencing this financial strain to a much greater degree. A family of moderate income will spend less than 15% of their combined earnings for its total food purchases. A family living at or below poverty attempting to purchase groceries that will provide a nutritionally adequate diet will be forced to spend closer to one third of its income. These are the families who are forced to spend the greatest percentage of their income on food, but have no money in their family to draw upon when there is a rapid increase in the cost. All of this family's money is allocated for basic bills that if go unpaid can result in the loss of the home, utilities or ability to get to and from work. These are the families who are forced to make choices of purchasing cheaper less nutritionally sound food, or even worse, miss entire meals.

This is the reality many families in South Carolina currently face. In the last year the price of food has increased over 5%. USDA reports that the cost of a bare-bones grocery bill for a family of 4 that meets minimal nutrition standards or the "Thrifty Food Plan" is an 8.5% increase from June 2007 to June 2008. That's a $46 monthly increase.

While there is a perception that the cost of living in South Carolina is not very high, low wage workers living on the most reserved budget are unable to make ends meet. I have attached two monthly family expenditure budgets to my testimony. The first, (Exhibit #1) is a modest budget for a single parent supporting two children; the other (Exhibit #2) is for a two parent family with one child. These budgets include only the basic needs of shelter, food, childcare, utilities and transportation. I have included within each document information as to the amount of income the family would need to earn to be considered at or below 100%, 150%, 185% and 200% of the federal poverty level. These budgets demonstrate that these low income families for the most part must outspend their income when addressing just basic needs. Of course some in poverty live in conditions that many of us would find unacceptable-substandard housing, too little food, no healthcare etc.

MONTHLY BUDGET FOR FAMILY OF 3: ONE WAGE EARNER WITH TWO CHILDREN
EXHIBIT #1

Expense	Amount
Rent/Mortgage[1]	$634.00
Power, Water and Sewer	$225.00
Basic Phone[2]	$15.55
Cell Phone[3]	$29.99
Food[4]	$360.00
Transportation (car payment)[5]	$163.00
Gas[6]	$252.00
Maintenance for home and car[7]	$50.00
Car Insurance	$75.00
Household Supplies[8]	$125.00
Child Care[9]	$670.00
Health Care[10]	$320.00
Clothing	$40.00
FICA/Taxes[11]	$200.00
Church	$60.00
Total	$3573.29

INCOME

Gross monthly Income Family of Three at 150% of poverty: $2,200.00[12]
Gross monthly Income Family of Three at 185% of poverty: $2,714.00[13]
Gross monthly Income Family of Three at 200% of poverty: $2,934.00[14]
Gross monthly Income Family of Three at 100% of poverty: $1467.00

ENDNOTES

[1] This is an average rent for South Carolina for a two bedroom apartment. Market rent is higher in metropolitan/tourist areas and lower in rural areas.
[2] Basic phone does not include long distance or cell phone.
[3] This is the lowest monthly rate plan offered by mobile phone service providers. The cost includes one line and does not take into account any additional charges.
[4] All families are ineligible for food stamps as they are over the gross income level of 130% of poverty. Based on costs of $125.00 per week.
[5] Purchasing a 2002 Mazda Protege for $7,880.00. Car financed at 9.34% APR for 60 months.
[6] This is to purchase 15 gallons of gasoline a week at $3.91 a gallon.
[7] General maintenance of brakes, oil, tune-ups, does include major repairs.
[8] This includes diapers, cleaning supplies, paper supplies, laundry detergent and other necessities to maintain a household.
[9] Based on information provided by SC Dept. of Social Services market survey
[10] At 200% of poverty the child in the family is covered by the State Children's Health Insurance Plan (SCHIP). Family over 200% of poverty can not receive SCHIP for the child. The costs reflected cover health insurance s of parent and co-pays/out of pocket costs.
[11] All wage earners must pay FICA, Medicare, and sales tax. The amount is based on 150% of poverty. Deductions would be higher at 185% and 200%. Fed. Income tax will also be deducted, but not in chart.
[12] To earn this amount the adult must earn approximately $12.79 an hour and work 40 hours a week.
[13] To earn this amount the adult must earn approximately $15.78 an hour and work 40 hours a week.
[14] To earn this amount the adult must earn $17.06 an hour and work 40 hours a week.

Prepared by SC Appleseed Legal Justice Center, July 2008.

MONTHLY BUDGET FOR FAMILY OF 3: TWO WAGE EARNER FAMILY WITH ONE CHILD
EXHIBIT #2

Expense	Amount
Rent/Mortgage[1]	$634.00
Power, Water and Sewer	$225.00
Basic Phone[2]	$15.55
Cell Phone[3]	$49.99
Food[4]	$528.75
Transportation (car payment)[5]	$163.00
Gas[6]	$252.00
Maintenance for home and car[7]	$50.00

MONTHLY BUDGET FOR FAMILY OF 3: TWO WAGE EARNER FAMILY WITH ONE CHILD
EXHIBIT #2—Continued

Expense	Amount
Car Insurance	$75.00
Household Supplies[8]	$125.00
Child Care[9]	$333.00
Health Care[10]	$100.00
Clothing	$25.00
FICA/Taxes[11]	$200.00
Church	$60.00
Total	$2836.29

INCOME

Gross monthly Income Family of Three at 150% of poverty: $2,200.00[12]
Gross monthly Income Family of Three at 185% of poverty: $2,714.00[13]
Gross monthly Income Family of Three at 200% of poverty: $2,934.00[14]
Gross monthly Income Family of Three at 100% of poverty: $1467.00

ENDNOTES

[1] This is an average rent for South Carolina for a two bedroom apartment. Market rent is higher in metropolitan/tourist areas and lower in rural areas.
[2] Basic phone does not include long distance or cell phone.
[3] This is the lowest monthly rate plan offered by mobile phone service providers. The cost includes one line and does not take into account any additional charges.
[4] Based on Thrifty Food Plan for Family of three.
[5] Purchasing a 2002 Mazda Protege for $7,880.00. Car financed at 9.34% APR for 60 months.
[6] This is to purchase 15 gallons of gasoline a week at $3.91 a gallon.
[7] General maintenance of brakes, oil, tune-ups, does include major repairs.
[8] This includes diapers, cleaning supplies, paper supplies, laundry detergent and other necessities to maintain a household.
[9] Based on information provided by SC Dept. of Social Services market survey
[10] At 200% of poverty the child in the family is covered by the State Children's Health Insurance Plan (SCHIP). Family over 200% of poverty can not receive SCHIP for the child. The costs reflected cover health insurance s of parent and co-pays/out of pocket costs.
[11] All wage earners must pay FICA, Medicare, and sales tax. The amount is based on 150% of poverty. Deductions would be higher at 185% and 200%. Fed. Income tax will also be deducted, but not in chart.
[12] To earn this amount both adults must earn $6.40 an hour and work 40 hours a week.
[13] To earn this amount both adults must earn $7.89 an hour and work 40 hours a week.
[14] To earn this amount both adults must earn $8.53 an hour and work 40 hours a week.
Prepared by SC Appleseed Legal Justice Center, July 2008.

The amount of funds allocated in this budget for food is based on the USDA Thrifty Food Plan. This is a very modest amount allocated for food costs. It's very difficult for a family to manage a basic healthy diet on this amount. The other expenditures reflect actual costs of a family living in South Carolina. As the budgets demonstrate all of the single wage earner family are unable to afford to make ends meet under even this modest budget and would have to cut corners each month. Two-wage earner families do not do much better. Only families at or above 200% of poverty have enough income to meet all their basic needs and may have additional money each month to apply to food. The majority of these households, despite working full time, are unable to absorb the $46.00 increase in food costs if they wish to purchase items under the TFP market basket.

In South Carolina a very limited number of families receive subsidies for housing costs, far more go without assistance and are required to use much of their family budget to cover just this cost. Utilities and transportation costs have increased over the past year with tremendous impact to families. Since South Carolina guarantees childcare assistance only for families who live at or below 65%

of poverty many are forced to pay much more than they can afford. One of the ways that families manage to survive temporarily at these low incomes is by accumulating debt in order to make ends meet. I am seeing a huge increase in calls from low income consumers who are making desperate choices to meet their monthly bills. They are living on credit cards or even worse usurious payday loans (391% APR) or auto title loans (300% APR) that are sending them into a downward debt spiral that has resulted in the majority of their income going to maintain these debts. One elderly gentleman I recently represented was just slightly over eligibility for Food Stamps and used payday loans to “make ends meet”. By the time he contacted me he was facing eviction, his utilities were being turned off and he had no food because this temporary stop gap had overtaken all of his income. I often talk to senior citizens or disabled individuals who are trying to decide whether to pay their rent or utility bill. Purchasing food seems to be the easiest item in their budget to give up. All of this translates into a family making cuts to the food budget, resulting in the purchase of less nutritious food or missing entire meals, sending them in a downward healthcare spiral.

The increased demand on our state’s food banks and pantries has been tremendous. Many families who never turned to this service in the past are now monthly visitors. Our largest food bank has modified its distribution limitations from once every 90 days to once every thirty days. I personally participate in a community effort to open the Columbia, SC pantry one evening a month to accommodate working families that cannot come during the daytime. It was determined that the evening shift should take place at the end of the month as the household’s food stamps will only last less than two weeks and the family will be in need of supplemental food by the fourth week of the month. In an hour and a half we serve approximately 30 households, most of these are families that never needed to utilize this service in the past. This is in addition to the 110 households that were served earlier during the daytime hours. All of these households are informing us that they need this supplemental food because their food stamps do not purchase enough food for the month, they do not have enough income to purchase additional food and their wages are not stretching as far as they did in the past due to rising costs. It is absolutely heartbreaking to have parents apologizing for needing this assistance as if it is their fault their income will not cover their children’s needs. There has been a 35% increase in the number of households utilizing the food bank over the last year. Of the households utilizing the food bank approximately 50% of these families were receiving food stamps and 5% receiving WIC and another 5% receiving assistance from Commodities Supplemental Food Program. One quarter of these participants are children and one third of these participants were over age 60. The food bank is now assisting with Food Stamp applications in an effort to connect household to this benefit.

While I am grateful for the assistance of the food banks, this service is supplemental to the Federal Nutrition programs. Food banks cannot fill the gap between the income families have to purchase food and what an adequate diet costs. The chasm is too wide, particularly in a year when food banks themselves are challenged by the rising cost of food and fuel.

My testimony will concentrate on Food Stamps and Women Infants and Children (WIC) programs. Both of these programs are critical to addressing hunger in our state. While I want to complement our state and local agencies that administer these programs for their efforts to enroll households in these programs, unfortunately not all those who are eligible are enrolled in these nutrition assistance efforts. South Carolina has enrolled approximately 68% of all food stamp eligible persons in the program. Participation rate among eligible working poor is slightly less at 64%. Approximately 12% of South Carolinians or one in eight individuals receive food stamps in South Carolina. Unfortunately there are hundreds of thousands of lower income South Carolinians who are unable to enroll in this program due to program limitations. These households do not even have the benefit of this program to help offset the high cost of food. Our WIC program has also seen tremendous growth. The average yearly case load has increased by 16,000 participants to over 124,000 in FY2008 compared to just over 108,000 in FY2005. Many counties have seen such a large increase in the demand for the program that applicants have to wait six weeks before they can be seen for an eligibility appointment.

The Food Stamp Program makes an enormous difference in the ability to purchase food for the working poor, unemployed, senior citizens and disabled. Unfortunately, program eligibility limits keep it from reaching so many who are in need. While families living at 200% of poverty are by anyone's definition low income and struggling to meet all necessities, these families are unable to access this important benefit. For those who are eligible, the current benefit amounts do not meet their needs, having been eroded over the last year. This needs to be corrected in our upcoming budget. The Food Stamp benefit level needs to be fully indexed to permit the allotments to keep up with food inflation. The tremendous increase in food costs has greatly reduced the buying power of Food Stamps. Food Stamps in South Carolina purchase approximately $1.05 per meal, per person as of 2007. With rising food costs over the past 12 months this benefit is purchasing even less. What was always a modest benefit package has eroded over the past few months with the spike in food costs. By June 2008, the cost of food had increased 8.5 percent since the previous June, yet food stamp benefits were $46 a month below the cost of the Thrifty Food Plan for a family of four. The Thrifty Food Plan (TFP) serves as a national standard for a nutritious diet at a minimal cost and is used as the basis for food stamp allotments. Food items in the TFP market basket chosen based on the latest dietary recommendations, but the Plan serves as the basis for inflation adjustments to Food Stamp allotments. While there will be an adjustment to the benefit allotment in October of this year to reflect this increase, it is not enough. When the adjustment is made, it will be already four months out of date. In addition, it will not change over the next twelve months reflecting the increase in costs to these low income families. Congress can address this problem for the coming fiscal year by anticipating the food price inflation that will occur and acting to offset some of it so assistance to needy families and elderly individuals does not again fall short of what is needed to purchase a minimally adequate diet. Congress should consider increasing the food stamp benefit for FY 2009 from the benefit increase that is scheduled to take place in October 2008 to properly reflect the rise in food costs that will take place over the next year. This will ensure that the lag in food data prices is taken into account and that households will be provided sufficient resources to purchase nutritional food, despite the rising costs over the coming year.

I also urge you to ensure that the Women, Infants and Children (WIC) program is adequately funded in the next year. WIC provides Federal grants to States for supplemental foods, health care referrals, and nutrition education for low-income pregnant, breastfeeding, and non-breastfeeding postpartum women, and to infants and children up to age five who are found to be at nutritional risk and are at or below 185 percent of the federal poverty level. WIC is unique among federally administered programs in that it provides specific supplemental nutritious food and nutrition education to a specific target population as a short term intervention and adjunct to ongoing health care. The supplemental foods provided by the WIC program are designed to meet the participants enhanced dietary needs for specific nutrients during brief but critical periods of physiological development. WIC is sometimes incorrectly described as a welfare program because participants must be members of a low-income family. In fact, over 50% of the women and children on WIC are members of a family where one or both parents work outside the home.

Our state WIC agency has done a remarkable job making this program available to pregnant women and children in our state. The participation growth has been tremendous over the past three years. The average SC WIC caseload in FY 2008 is 124,888 participants. Most years, the SC WIC program serves over 50% of the infants born in the state. In June 2008, 37,443 infants were being served by WIC. In a state where we are on the bottom of the lists for child well-being and infant mortality, this is an important program to help increase the quality of life for these families. Through outreach efforts more families are being enrolled and are having nutritional foods made available. With this huge increase in participation comes strain to the program. In recent conversations with the agency and potential beneficiaries, I have learned that it can sometimes take up to six weeks before an applicant can be seen. Six weeks of inadequate nutrition can have a huge impact on a developing fetus or young child. The only reason for this delay is high demand and lack of resources. In addition, the huge increase in food costs over the past year has had an impact on the budget as a whole. Food packages provided under WIC are becoming much more expensive. While the agency has not done so at this time, it may be forced to implement a priority system for who will be able to participate in WIC if the state does not receive increased funds. What will this means for potential WIC applicants? Pregnant women will continued to be served, and most probably infants, but young children may not be able to access to this important supplemental nutrition program. These are the same families that have lost buying power due to the diminished value of Food Stamps and are in great need. The children of South Carolina are our state's future. Hungry children or children being fed nutritionally inadequate meals cannot learn and can be faced with many more health challenges. This hurts all of our state, which is struggling to increase our economy, productivity and quality of workforce. It's critical that Congress provide sufficient funding for the WIC program for FY09 to ensure that all eligible women, infants and children receive the help they need from this vital program. Given that Congress will likely first provide FY09 funding via a continuing resolution, it's essential that the CR provide increased funding to WIC rather than wait for the regular appropriation. That might be months later and would most certainly mean that eligible women and children would be denied WIC, while the program waited for sufficient funding.

Low income families are feeling the impact of food prices far more dramatically than families with means. A moderate income household may choose to eat out of the home less often or pack a lunch for work. A low income household has very different choices available. It could mean not paying the light bill or rent. It may mean that your children are sent to less than quality daycare. An elderly individual may be living in 95 degree heat with no air conditioning or fan. A single mother with no health insurance may chose to ignore the lump in her breast, rather than have it examined early on. Or a low income parent working 60 hours a week because she has a disabled husband, is juggling 16 payday loans to keep from having her world come tumbling down. For many households it means purchasing food with little to no nutritional value because milk and produce have become impossible to afford. Children are being provided meals that are filling but do not provide them with all the essential food groups. Working households who are doing everything they can to make ends meet are coming to the food bank once a month because they just cannot afford to purchase the food they need. The rapid rises in food prices, which are predicted to continue over the next few years, are eroding the value of critical programs, especially Food Stamps and WIC. We must protect all of our citizens who are suffering from this economic downturn by helping them increase and maintain their purchasing power at the grocery store. The federal government has done so much to help eliminate severe malnutrition in our country, but we are far from solving the problem.

We still have a huge problem of food insecurity and hunger. It is our neighbor, our classmate and even our co-worker. We must act quickly to protect our citizens from the economic downturn and provide them the assistance they need.

Chairman SPRATT. Thank you very much. Dr. Steve Hanke is a professor at Johns Hopkins and a fellow at the Cato Institute. Thank you for coming in. We welcome your statement.

STATEMENT OF STEVE HANKE

Mr. HANKE. Thank you, Mr. Chairman, for inviting me. Congressman Ryan posed a question in his opening remarks in which he said, "What are the causes for the food price inflation?" And I think the Federal Reserve, or the Central Bank, is the main culprit in the food price inflation story. The Federal Reserve creates what I term demand bubbles. Usually the economy does go along in a trend. If you look at the Greenspan years, eighteen years of Greenspan, that is quite a bit. It is a generation almost. The trend rate of growth of 5.4 percent in the U.S. economy. And that was split. 3 percent of that amount was real growth and 2.4 percent was inflation. And there are a lot of deviations around the trend. And this is where the demand bubble comes in. There actually were three demand bubbles created during the Greenspan years, and this is when the nominal final sales to domestic purchasers, or aggregate demand, in the economy goes way up above trend. And it cannot be sustained unless you start generating a lot more inflation.

The last one of these got going after the equity bubble burst on Wall Street in 2000, 2001. And the Fed, of course, reacted to this as they always do when they think there is a financial crisis. They push on the pedal and get the money pump going as fast as they can in reaction to what they view as an impending crisis. And so the money pump starts going after the equity bubble popped, and the demand bubble starts coming down at the same time.

And then in late 2002, in November precisely of 2002, then Governor Bernanke, now Chairman Bernanke, gave a very influential speech. And he warned that deflation was the real crisis and problem that we were facing. And at that time he convinced Chairman Greenspan and the rest of his colleagues at the Fed that we were going into deflation, and we had to do everything to fight deflation. And so as you will recall, that is when the Fed really pushed on the accelerator and pushed the Fed funds rate down to 1 percent by July of 2003. And they left the Fed funds rate at the record low level for a full year.

Now, accompanying this, of course, as you know the dollar started going down, and spiraling down. Since really 2001 these things were going together, the money pump and the liquidity was coming in, the inflation scare, even more liquidity, and the dollar was going down more sharply. Now, it is just a matter of simple economics and arithmetic to conclude that if the dollar goes down, the dollar price of commodities, including food, go up. If the dollar is going down you have to pay more to buy a pig, more dollars, than you had to pay before when the dollar was stronger.

So if we look at the contribution of the weak dollar to the food prices and commodity price increases, it is really rather remarkable. I have a table, table one actually in my testimony. And if you look at that table there is a column, I go through all the calculations and so forth, if you want to spend the time with it, or have your staff look into it, you can certainly do these calculations. The methodology I used is the same one they use at the Dallas Fed. And what I assumed was in kind of a counter factual exercise that the exchange rate between the dollar and the euro, what if it would have remained the same as it was at the end of 2001? Instead of going down, it remained the same as it was at the end of 2001? And then I calculate what the contribution of the fall in the exchange rate was to the actual price increases that we have witnessed in ten commodities that are in the Commodity Research Bureau Index.

So we start with the smallest contribution is to soybeans over that period since 2001, the end of 2001. About 59 percent of the price increase in soybeans is strictly due to the fact that the dollar has gone down relative to the euro over that period of time. And then we have got corn, is 61 percent increase; coffee, 62; wheat, 66; cocoa, 72; oats, 77. And if you look in the column way to the right, Mr. Chairman, you will see that all of those that I have just listed off with percentages that are less than 100 percent, the last column has a plus in it. And that plus means that there is some real fundamental supply and demand factors that have been changing around in those markets that are actually pushing the price up even higher than the price increase that would automatically take into account just the change in the exchange rate and the weak dollar.

Now if you go down below that you see numbers for sugar, live cattle, orange juice, and lean hogs where the contribution to the price increase that we have realized since 2001 that is caused by the weak dollar is actually greater than 100 percent. And then in the right hand column you will see there are negative signs. And what that means is actually the fundamentals in those markets, the real fundamentals, the supply and demand fundamentals, are actually deflationary. In other words, if the dollar would not have changed at all the price of live cattle, sugar, orange juice, and hogs would actually today be lower than it was at the end of 2001.

So the main point here is, Mr. Chairman, that exchange rates and the weak dollar are where the problem is in terms of root causes, as Congressman Ryan referred to them. Now you would not know from listening, of course, to the Fed. Because they will cover up anything. You had Chairman Bernanke up here on the Hill the 15th of July saying, "We have looked at all these factors." And he said, "Speculators do not have anything to do with it." I agree with that, by the way, speculators have nothing to do with these price increases. He said, "Fundamentals. It is fundamentals, fundamentals, fundamentals. And by the way the dollar, the weak dollar, has a tiny impact maybe. Maybe some, but not very much."

That was the 15th. Well this is just absolutely nonsensical. I mean, you could not get any economist to agree to this kind of thing. But I think he has pulled the wool over many people's eyes with that position. And the Vice Chairman of the Fed has made statements that have been absolutely identical to this.

So if you want to reduce or stabilize food prices you have got to increase the value of the dollar, or stabilize the value of the dollar.

Now, let me just make one final remark, Mr. Chairman, if I may, and refer to oil. Because oil is a commodity and it happens to be also a very important input into the production and distribution of food. And I know it is a hot button issue up here on the Hill, what about crude oil prices, and so on. Well actually it turns out that there is something that government can do immediately about crude oil prices. We have something called the Strategic Petroleum Reserve. And the Strategic Petroleum Reserve is huge. Its draw down capacity is greater than the export volume coming out of Iran and Kuwait combined. So the SPR is absolutely huge. The problem is, and both the Republicans and Democrats have this thing completely wrong, about release rules for the SPR. And the release rules now for the SPR, they are kind of Soviet type release rules. In other words, they are tangled up with either bureaucratic decision making or political decision making, determining whether oil can be released from the SPR. My proposal is, and this would reduce oil prices immediately, reduce volatility in the crude oil market, and generate revenue, which is after all, the Budget Committee should be interested in revenue generation, that would offset some of the storage costs for this crude oil in the SPR. And this could be done by a market based solution, a very simple market based solution. And that is that the oil in the SPR would be sold, or options in the right to the oil in the SPR, would be sold in the private market. So there would be consumption, it is called a call option. So you would write a call option let us say for a certain quantity of the SPR at $150 a barrel. Now the current prices are, let us say are only $125. So that would be written for a specific date. Let us say December of 2008. So in that period of time somebody in the market would pay the government for that call option to buy oil at a strike price of $150 a barrel. And they would have that right until the termination or expiration date of the call option, which would be December 2008. So the government gets revenue from this. And if the price never goes up to $150 a barrel, of course, the guy who buys the call option is not going to exercise. And the government keeps the oil, and keeps the premium they get for selling the call option. If the price goes up to $150 or higher, of course, the buyer of the call option exercises its delivery of the oil, which you can easily do from SPR. The government gets the cash from selling at $150 and they also get the premium on the call option so you have generated revenue by doing this.

Now with this huge amount of inventory, this is a massive amount of inventory, now it is dead. It is not doing anything. I mean, some Democrats want to release some of it. The Republicans of course are against that because the Democrats are for it. And the solution is let the market determine what the release the SPR is going to be. And this is the way to do it. If you did it, you would have this massive dead resource that would be alive now and dynamic. And it would put a tremendous amount of downward pressure on the spot price of oil, driving the spot price down relative to the future price. And the whole structure of prices would come down immediately if this would occur. This would, of course, help food prices indirectly because petroleum and petroleum products are such a huge input into production and distribution of food.

And with that, Mr. Chairman, I am going to conclude my remarks. Thank you.

[The statement of Steve Hanke follows:]

Testimony

By

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and
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On

Rising Food Prices: Budget Challenges

Before
Committee on the Budget
United States House of Representatives

July 30, 2008

(Amended August 15, 2008)

Mr. Chairman and members of the House Committee on the Budget, thank you for this opportunity to present my views on rising food prices. To address the problems associated with rising food prices, we must understand what has caused prices to rise. I will address a major cause of the rise in food and other commodity prices since 2001.

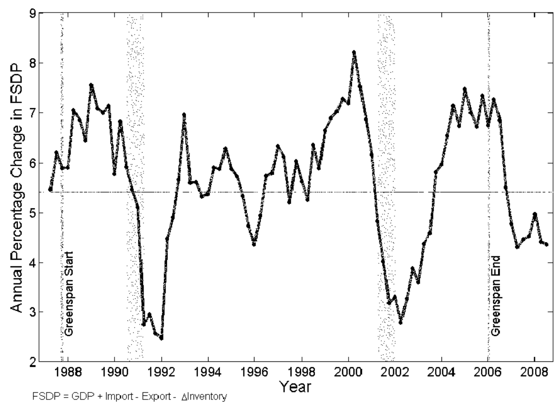
The evidence suggests that the Federal Reserve is a major culprit in the commodity inflation story. But you wouldn't know it from reading the press or listening to officialdom and the political chattering classes. This isn't surprising. After all, economic history is written, to a large extent, by central bankers. In consequence, one should take official accounts with a large dose of salt.

Just consider the "bubble-blowing" charges leveled at the former chairman of the Federal Reserve System Alan Greenspan. The former chairman has proclaimed his innocence. Let's look at the evidence.

What is a bubble? A bubble is created when the Fed's laxity allows aggregate demand to grow too rapidly. Specifically, a demand bubble occurs when nominal final sales to U.S. purchasers (GDP – exports + imports – change in inventories) exceeds a trend rate of nominal growth – a trend rate that is consistent with "moderate" inflation – by a significant amount.

During Greenspan's 18-year tenure as Fed chairman, nominal final sales grew at a 5.4% annual trend rate. This reflects a combination of real sales growth of 3% and inflation of 2.4% (see Chart 1). But there were deviations from the trend.

Chart 1. Final Sales to Domestic Purchasers (FSDP) from 1987Q1 to 2008Q2 (year/year)



The first deviation began shortly after Greenspan became chairman. In response to the October 1987 stock market crash, the Fed turned on its money pump and created a bubble: over the next year final sales shot up at a 7.5% rate, well above the trend line. Having gone too far, the Fed then lurched back in the other direction. The ensuing Fed tightening produced a mild recession in 1991.

From 1992 through 1997 growth in the nominal value of final sales was quite stable. But successive collapses of certain Asian currencies, the Russian ruble, the Long Term Capital Management hedge fund and finally the Brazilian real triggered another excessive Fed liquidity injection. This resulted in a boom in nominal final sales and a bubble in 1999-2000. This was followed by another round of Fed tightening, which coincided with the bursting of the equity bubble in 2000 and a slump in 2001.

The last big jump in nominal final sales was set off by the Fed's liquidity injection to fend off the false deflation scare in 2002. Fed Governor Ben S. Bernanke (now chairman) set off a warning siren that deflation was threatening the U.S. economy when he delivered a dense and noteworthy speech, "Deflation: Making Sure it Doesn't Happen Here," on November 21, 2002. He convinced his Fed colleagues that the deflation danger was lurking. As Greenspan put it, "We face new challenges in maintaining price stability, specifically to prevent inflation from falling too low." (Congressional testimony delivered on July 15 and 16, 2003). By July 2003, the Fed funds rate was at a record low of 1%, where it stayed for a year. This produced the mother of all liquidity cycles and yet another massive demand bubble.

During the Greenspan years, and contrary to his claims, the Fed overreacted to real or perceived crises and created three demand bubbles. The last represents one bubble too many—and one that is impacting us today.

Not surprisingly, the mother of all liquidity cycles has been accompanied by a weak dollar. Indeed, the Federal Reserve's Trade Weighted Exchange Index has fallen by 24% since 2001. And as every commodity trader knows, all commodities, to varying degrees, trade off changes in the value of the dollar. When the value of the dollar falls, the nominal dollar prices of internationally traded commodities--like gold, rice, corn and oil--must increase because more dollars are required to purchase the same quantity of any commodity. Accordingly, a weak dollar should signal higher commodity prices. And it has. Since 2001, when the dollar started its downward slide, the fifty-five commodities that make up the Food and Agricultural Organization of the United Nation's "Food Price Index" have increased by 127%.

To examine the link between the greenback and commodity prices, a counterfactual – a what if, thought experiment – is well suited. Counterfactuals are often employed to examine alternatives to actual history. For example, what would have happened if, contrary to fact, some present condition were changed?

The use of counterfactuals has a rich, if not controversial, history. Perhaps the most famous counterfactual was employed by Professor Robert Fogel of the University of Chicago in *Railroads and American Economic Growth*. In that book, Professor Fogel calculated what the transportation system of the United States in 1890 would have looked like without railroads. His calculations created a great controversy. But they were robust and helped him win the 1993 Nobel Prize in Economics.

Table 1 contains the results of counterfactual calculations. By computing what the prices of various commodities would have been on 11 July 2008, if the U.S. dollar-euro exchange rate would have remained the same as it was on 28 December 2001, we can determine (on a counterfactual basis) what the exchange-rate (weak dollar) contribution to the total change in various commodity prices has been since 2001. For example, rough rice prices have increased by 385% since 2001, and the weak dollar has contributed 55.53% to the price increase of rough rice. In the case of rough rice, real factors (supply and demand fundamentals) have also contributed to the price increase since 2001—namely 44.47%. This is signified by a "+" sign in the last column of Table 1 for rough rice.

Lean hogs are at the other end of the spectrum. If the dollar-euro exchange rate would have remained at its 28 December 2001 level, the price of lean hogs would have declined from 57.05 cent/lbs. to 41.74 cent/lbs. during the 28 December 2001 – 11 July 2008 period. In fact, the price of lean hogs was 74.65 cents/lbs. on 11 July 2008. Accordingly, the exchange-rate contribution to the change in the price of lean hogs since 2001 was 186.98%. This contribution exceeds 100% because real factors were working to depress the price of lean hogs, and that is why a "–" sign is entered in the last column for lean hogs.

Table 1
Counterfactual: The Contribution of the Weak Dollar to Commodity Price Increases (28-Dec-2001 to 11-Jul-2008)

Commodity		28-Dec-01	11-Jul-08	Price of Commodity on 11-Jul-08 if the USD/EURO exchange rate remained at 0.8912 (28-Dec-01)	Exchange-rate Contribution to the Total Change in Commodity Price	Direction of Real Supply-Demand Fundamentals
Rough Rice	(cents/cwt.)	369.00	1790.00	1,000.91	55.53%	+
Soybeans	(cents/bushel)	421.00	1615.50	903.33	59.62%	+
Corn	(cents/bushel)	209.00	691.00	386.38	63.20%	+
Coffee	(cents/pound)	46.20	142.25	79.54	65.29%	+
Wheat	(cents/bushel)	289.00	830.75	464.53	67.60%	+
Oats	(cents/bushel)	195.75	449.50	251.35	78.09%	+
Cocoa	(USD/mt.)	1,310.00	2912.00	1,628.29	80.13%	+
Sugar #11	(cents/pound)	7.39	13.99	7.82	93.44%	+
Live Cattle	(cents/pound)	68.17	101.20	56.59	135.07%	−
Orange Juice	(cents/pound)	89.10	123.05	68.81	159.78%	−
Lean Hogs	(cents/pound)	57.05	74.65	41.74	186.98%	−
Gold	(USD/troy oz.)	279.00	960.40	537.02	62.13%	+
Crude Oil	(USD/barrel)	19.84	145.66	81.45	51.03%	+
USD / EURO		0.8912	1.5938		44.08%*	

The following is the computation for the weak-dollar contribution to the price increase of rough rice

Price of Rough Rice on 11-Jul-08 if the USD/EURO exchange rate remains at 0.8912 (28-Dec-01)
= 1,790 x 0.8912 / 1.5938
= 1000.91

Total Change on Rough Rice Price from 28-Dec-01 to 11-Jul-08
= 1,790 - 369
= 1,421

Exchange-rate Contribution to the Change in the Commodity Price
= 1,790 - 1,000.91
= 789.09

Exchange-rate Contribution as a Percentage to Total Change in Price
= 789.09 /
1,421
= 55.53%

Note: *The percentage represents the U.S. dollar depreciation from 28-Dec-01 to 11-Jul-08

Source: Commodity Research Bureau, "Components: Monthly Charts and Data"; Bloomberg; and author's calculations

Given the dollar recent upward surge in value, we don't have to rely solely on a counterfactual thought experiment to show how nonsensical "Fedspeak" can be. As Table 2 indicates, the dollar has appreciated against the euro by 6.9% during the 11 July – 11 August 2008 period. With the exception of live cattle and lean hogs, the prices of all commodities listed have fallen. And the CRB Foodstuffs and Spot indexes have fallen by -7.12% and -6.31%, respectively, during the period in question. That's almost a perfect mirror image of the dollar's strength.

Table 2
Changes in the Value of the Dollar and Commodity Prices (11-Jul-2008 to 11-Aug-2008)

		11-Jul-08	11-Aug-08	Percentage Change
USD / EURO		1.5938	1.4909	6.90% *
CRB Foodstuffs Index		433.37	402.53	-7.12% **
CRB Spot Index (All Commodities)		472.45	442.65	-6.31% **
Commodity		**11-Jul-08**	**11-Aug-08**	**Percentage Change in Futures Price**
Gold	(USD/troy oz.)	960.40	822.60	-14.35%
Crude Oil	(USD/barrel)	145.66	114.45	-21.43%
Rough Rice	(cents/cwt.)	1,790.00	1625.00	-9.22%
Soybeans	(cents/bushel)	1,615.50	1215.00	-24.79%
Corn	(cents/bushel)	691.00	497.25	-28.04%
Coffee	(cents/pound)	142.25	135.85	-4.50%
Wheat	(cents/bushel)	830.75	793.75	-4.45%
Oats	(cents/bushel)	449.50	356.00	-20.80%
Cocoa	(USD/mt.)	2,912.00	2670.00	-8.31%
Sugar #11	(cents/pound)	13.99	13.37	-4.43%
Live Cattle	(cents/pound)	101.20	102.30	1.09%
Orange Juice	(cents/pound)	123.05	98.15	-20.24%
Lean Hogs	(cents/pound)	74.65	89.98	20.53%

Note: *The percentage represents U.S. dollar appreciation from 11-Jul-08 to 11-Aug-08
**The percentage represents CRB Index decline from 11-Jul-08 to 11-Aug-08

Source: Bloomberg; and author's calculations

Contrary to Fed chairman Bernanke's Semiannual Monetary Policy Report to the Congress, which he delivered on July 15, 2008, the weak dollar has played a significant role in pushing up food and commodity prices. A stronger dollar would provide relief from sky-high food and commodity prices.

In closing, I would like to address the price of crude oil—an important input in the production and distribution of food. Since 2001, the weak dollar has contributed almost $64 per barrel to the current price of oil. In addition to a stronger dollar, the U.S. government's Strategic Petroleum Reserve could be transformed from a "dead" resource into a dynamic, market-based force that would put considerable downward pressure on crude oil prices.

The SPR is a response to the oil embargo imposed by the Organization of Arab Petroleum Exporting Countries after the 1973 Arab-Israeli War. It comprises five underground storage facilities, hollowed out from salt domes, located in Texas and Louisiana. By 2005, the SPR's capacity reached its current level of 727 million barrels. At present, 706.8 million barrels are stored in the SPR. That's over twice the size of private crude oil inventories. To put SPR's size into perspective, its current storage would cover about 71 days of U.S. crude oil imports or 47 days of total U.S. crude oil consumption. The SPR's drawdown capacity is 4.3 million barrels per day. That rate is slightly greater than the combined daily crude oil exports from Iran and Kuwait. In short, the SPR is huge.

Not being faced with capital carrying charges and never wanting to be caught short, government officials, like proud pack rats, want to just sit on this mother of all commodity hoards. They argue that the SPR represents an insurance policy for national emergencies. But without a specified release rule, just what is the insurance policy written for?

What should be done with the hoard of crude oil in the SPR? It's time to remove the release rules from the grip of politics. Market-based release rules would transform the SPR into an oil bank. It would provide the country with a huge precautionary inventory of oil, generate revenue to defray some of the government's stockpiling costs, smooth out crude oil price fluctuations, and push down spot prices relative to prices for oil to be delivered in the future.

How would the oil bank work? The government would sell out of the money covered call options on the SPR stockpile. It might, say, sell December 2008 call options with a strike price of $150 a barrel. If the price surged above that level, the option buyer would exercise and take delivery of crude oil from the government's stockpile. If the price never reached $150, the option would expire worthless and no crude oil would be released.

If we want lower oil prices, we can obtain them immediately by replacing politically-based release rules for the SPR with market-based rules.

Chairman SPRATT. If you are buying a future why would the future price not go down as well?

Mr. HANKE. The future, you would get two effects going on, Mr. Chairman. Kind of the forward curve, if you plot out the spot price now is a little bit lower than the future price, let us say for December, right now if you look at the prices. So the market is in what they call contango. And what you would do with this SPR approach that I was talking about, you would do two things. You would shift the whole locus of the curve down. So to answer your question, the future price would come down and the spot price would come down. The spot price would come down more than the future price, so you would get the market tilting. That curve would go into more contango than it was in prior to selling call options in the SPR. So you get kind of a double whammy. Spot price going down relative to future price, and both spot and future price going down also.

Chairman SPRATT. Does this potentially punish some of the heavy speculators in the market and discourage their further participation?

Mr. HANKE. Well, I mean, I would, if this program was announced, I would not want to be short, excuse, I would not want to be long in the market whether the near term or futures market. I would want to be getting to the sideline. And that is one reason, Mr. Chairman, that both the future prices and spot prices would both come down if you initiated this. But just think, if the world's biggest inventory of oil now that is dead, would be overhanging the market. So you know, if you are selling cars and, you know, you have got to, everything in Detroit some politician says, "Look you have got to keep it in Detroit. You cannot let this stuff come into the market." And now all of a sudden you have got a market based rule, well that is that inventory of cars in Detroit, overhang the market, you know very well what is going to happen. You are going to get a better deal if you go in and try to buy a car.

Chairman SPRATT. Sounds like a good deal.

Mr. HANKE. I think it is.

Chairman SPRATT. Okay.

Mr. HANKE. And it is a simple one. And it would really end up, I think you should have, you should have the Democrats all for it because they want to release the SPR. And you should get the Republicans if they would come to their senses and wake up, they would be for it because they would say, "Oh, this is a great market based solution. We are using the market here." So everybody is happy. And especially the person who is consuming petroleum products, or consuming food, because those prices are going to go down.

Mr. RYAN. Just for the record, I want my colleagues to know that we are not picking witnesses that just come here and tell us what we want to hear, all right?

Chairman SPRATT. I am going to yield five minutes to Mr. McGovern, since he is the originator of this hearing. Mr. McGovern?

Mr. MCGOVERN. Thank you all for being here. I appreciate your testimony. I have a couple of questions. One domestic related, and then one international. Let me begin with the domestic stuff. For any of us who go home to our congressional districts and visit food banks, you know, or you know visit low income neighborhoods, this issue of rising food costs is all people want to talk about. I walk into a supermarket in Worcester, Massachusetts, people are grabbing me, you know, elderly people, you know, average mothers coming up, fathers coming up, and saying, "The food prices are going through the roof. A gallon of milk has gone up. You know, bread has gone up, chicken has gone up. What are we going to do about it?" And some people can make the, you know, can make up the difference, but there are a lot of people who cannot. And as we speak people are falling through the cracks.

I talked to some people in the audience here today who represent food banks are telling me that the rising food prices have resulted in less charitable giving, you know? The donations are not as generous as they were. So the, what was incoming is even less. And yet to meet the need is even more and more expensive.

Mr. BERNSTEIN, you talked about a second stimulus and about expanding food stamps as not only a way to stimulate the economy but as a way to kind of deal with this immediate crisis. And I want to say that we have an immediate problem and we have a long term problem. So let us just talk about the immediate. Does everybody here agree that a second stimulus package would be helpful? And that as part of that stimulus package that an increase in food stamp benefits and maybe WIC, or an increase in monies to food banks, would be an appropriate and useful and helpful thing to do? That is my domestic question.

On my international question to Ms. Sheeran, I wish that we would have a debate on what national security is in this country. And I think it needs to include more than military bases and bombs, and number of troops. I think it also should include things like economic security here, but also, you know, lowering poverty rates, lowering hunger around the world. I wish the Homeland Security Committee would get on board and be demanding more investments in international hunger programs and food programs because I think it is a way to bring stability to the world. When people are hungry and people are in poverty and they are hopeless they are more likely to turn to desperate measures.

And, you know, one of the programs that you mentioned which is near and dear to my heart, the McGovern-Dole School Feeding Program, which I like not only because it has got a great name but because it is feeding hungry children in school settings all around the world. Kids get fed and they get an education, they become literate. So you are getting two things done. We have been battling on this program for many, many years to get an appropriate funding level. We began with $300 million, got cut down to $50 million, we are now up to $100 million in the Farm Bill where, you know, we do not know where we are, but hopefully above that.

My question to you is, what does $100 million buy you today? $100 million would buy you X. What does it buy you today? I mean, how much, how much have these rising food prices eroded the purchasing power of what we had thought was a fairly decent and generous program?

But let me begin with the domestic people first.

Mr. BERNSTEIN. Well, and my answer is obviously yes to the question of whether a second stimulus is necessary given where the economy is and where it is expected to be over the next year or so, and the urgency of the food needs that we have discussed. The, just to repeat something I had in my testimony, the Moody's Economy.com evaluated thirteen different stimulus programs, either spending increases or tax cuts. And of those thirteen far and away food stamps were the most stimulative in terms of the additional bang for the buck or multiplier type of growth you get from a dollar spent in that area. The Congressional Budget Office agrees, pointing out that almost 100 percent of food stamps are directly spent on food by low income families who are pressed, as you have heard from other witnesses. So unequivocally yes.

Ms. BERKOWITZ. I agree with Dr. Bernstein. We need to, people are going hungry because they do not have enough resources to be able to purchase their food. Increasing the food stamp allotment is going to be critical. People are coming to the food bank now much sooner in the month because their food stamps are not buying as much. And so the stressors are on the food bank, they are on the individual households. And one important way that we can address that whole problem for people who are going hungry is to give them more spending power. And, you know, as Dr. Bernstein said, that is money that comes into our State, it is spent in our local economy, and it has a multiplier effect.

Mr. MCGOVERN. And before I go to Mr. Hanke, I just wanted to point out for the Committee. A year ago my wife and I took the food stamp challenge. We lived on a food stamp budget for a week. The average food stamp benefit is about $3 a day. And so we went and compared what we bought last year to this year. There is a $10 discrepancy. And yet the food stamp benefit had not changed. Now the Farm Bill addresses some of that, but it is incremental. It does not happen all at once. Mr. Hanke?

Mr. HANKE. Yes Mr. McGovern, let me say I will react in kind of a general way. Because I think any stimulus package, that could cover a multitude of things.

Mr. MCGOVERN. Well, should there be an emergency benefit, emergency relief to expand food stamps given the crisis we are in. I guess that is the, whatever you want to call it.

Mr. HANKE. Let me kind of stay on, try to answer your question and be responsive and make a comment. And that is that we have gone with the Bush Administration we have had a 68 percent increase in government spending. To compare it to the Clinton years, Clinton was 32 percent. So we have had a massive, wild spending spree going on in the government. And with the announcement of the kick up in the deficit, I saw the, I read in the New York Times the Chairman's comments, and I think the Chairman would probably frown on increasing spending, and stimulating something, and increasing the deficit. So I have concerns with spending more money.

Mr. MCGOVERN. Right, but understand one thing. For the record, I mean the food stamp benefit has not been expanded over these last several years. And maybe the number of people who are eligible, but the actual benefit has not expanded. So it has not been we have been more generous in the benefit. And we are at a point right now where there are people who are falling through the cracks who without additional help, I mean, the food banks are at capacity, will go hungry. And there is a cost to that, too. Healthcare costs. Kids who cannot learn in school. Lack of productivity. So it is not like——

Mr. HANKE. Knowing what these price increases have been, and their cause, coming out of this weak dollar that I mentioned earlier, I would react positively what you are saying if you could cut on a one to one basis something out of the budget and reallocate it for food stamps. So if you wanted to, you know, increase $100 million for food stamps and take it out of the Defense Department I would not have any problem with that.

Mr. MCGOVERN. I am all for that when we start paying for the War, which we have not been paying for.

Mr. HANKE. Yeah. Well, but one thing on the stimulus thing, and the rebate program, you know the tax rebate program, the last big tax rebate was President Nixon did this. And Milton Friedman, who I am certain you have heard——

Mr. MCGOVERN. Right. Oh, yeah.

Mr. HANKE [continuing]. Of Milton. And Milton was very much opposed to this stimulus package. And of course, his reasoning on that is the same reasoning I used when I was opposing the stimulus package that just came out of Washington. And the reason for it is that it is viewed as a temporary thing, not a permanent thing. If it was a permanent thing people would say, "Oh, my income has gone up permanently and I gear my consumption off of that increase in permanent income."

Mr. MCGOVERN. Without delaying this further——

Mr. HANKE. Yeah.

Mr. MCGOVERN [continuing]. You could actually do an uptick in the food stamp benefit so that it could reach up to where the Farm Bill would take it. You know, so there would not be a drop off. I mean, I am just——

Mr. HANKE. I have no problem in increasing the food stamp program if you can identify specifically and not with the typical Washington fun and games kind of exercise where you are going to take the money from.

Mr. BERNSTEIN. You know, with respect to—can I respond to some of Mr. Hanke's points?

Mr. MCGOVERN. Sure.

Mr. BERNSTEIN. With respect to much of his analysis, the permanent or temporary income hypothesis is completely irrelevant in this area of food stamps. What we are talking about are people whose resources are such that they are unable to provide enough food. So they are not looking at a stimulus in terms of whether this is a temporary or a permanent shift in their permanent income. They are simply having more resources to buy completely, inelastically demanded goods, which is food. So I do not think that applies there.

Secondly, I do not believe, you know, I think that much of your analysis confused correlation with causation. I understand that exchange rates and food prices have been moving in ways that you showed in your analysis. But the list of factors, and the Chairman listed them at the beginning of the discussion, as to what's driving food prices does not include the, that are widely accepted by experts in this area. Which does not mean you are wrong. I am just saying that the conventional wisdom on this, and I think it is correct, does not include either exchange rates or Federal Reserve policy. It includes natural phenomena, droughts, disruptive weather. It includes quick rising demand in developing countries. It includes energy, diversion into biofuels. It includes some of the hoarding that Ms. Sheeran expressed. I do not, I was not convinced that interest rates and dollar movements had much to do at all with this. And secondly, the implications of your thinking on this I thought were misguided in the following way.

The implication would be that raising interest rates would somehow be a part of the solution to the problem we are looking at right now. And raising interest rates right now simply would not do anything on the supply side. What it would do would be to slow the economy down further, to dampen demand, and to deepen the current downturn, whether it is job losses or wage losses. So I do not see where raising interest rates, slowing the growth of the economy, would have any of the effects that we want it to in this regard.

Now, if you were to dampen economic growth such that people had fewer jobs and lower wages and lower incomes and they could buy less food, perhaps the price would come down based on diminished demand. That is absolutely not, you know, where I think we need to head.

Mr. MCGOVERN. Ms. Sheeran, if you could answer, people say to me all the time, you know, "You got $100 million last year, you got $100 million this year, so you are getting the same. You should be happy." What are they missing?

Ms. SHEERAN. Well, as I mentioned we are able to fill this cup 40 percent less. And as this food crisis deepens we lose more and more of the value of this cup. So in order to keep the same amount in this cup we actually need the additional funding. So just the erosion of the cost of food is really causing a terrible situation.

I will say in my job there is nothing more heartbreaking than needing to cut off schools from School Feeding. It becomes the lifeline for these children, and this year we had to cut off all the school children in Cambodia. We had to end our School Feeding Program in the slums of Kenya just because we ran out of money just due to the higher price. And so the——

Mr. MCGOVERN. And what happens to those kids?

Ms. SHEERAN. Well most of them cannot afford to go to school then. Because they have to go forage for food, or find money for their families, or go feed themselves. And so we are really, we have already triaged, as we know we lose a child every six seconds in the world to hunger. So we obviously are not reaching all of them. The ones that we reach are the ones we can identify as the most in need. So these are not children that have a backup plan. And these are not children whose family have a backup plan.

I do want to get to your national security issue. We know that every study shows that in order to build secure democracies you have to have education and you have to have the basics met. This is just the fundamentals. We knew this after World War II. We knew this during the Marshall Plan. This cup is a magic cup. It cost ten cents before the food crisis to fill it. It now costs about 25 cents a day. It transforms communities. And it is not a permanent charity. Countries take this over. And this year we have had 28 countries graduate from the school feeding programs introduced through the generosity of the U.S. and others. And Jordan and Morocco now run their own School Feeding Programs. We are out of the business. We get out of the business because once we can structure them and once countries see the power of them.

I saw a survey of parents to send their kids to radical schools. Number one reason? Food. Number two reason? Uniforms. You go down the list. How do countries compete with the radical schools if they can't even provide a basic meal in school? And what is so exciting is we are learning how to power pack this cup so it has the adequate nutrition at a low cost. And we are working with companies in America and Europe and elsewhere to figure out how to get smart about what is in that cup. Once we model those programs they can be handed over to communities, and we do so regularly. And amazingly in some places we are able to fill this with produce grown by local farmers, like in the DRC, who are in a war zone. So it becomes a win-win cycle of stabilizing those societies.

So I actually am a radical about school feeding. George McGovern said he will not rest until every child on earth at least has a cup of food in school. And I asked how much would that cost. I was just intrigued. At WFP, under our cost structures, for the world to say, "No child goes to school hungry," before the food crisis would have cost $1.5 billion a year. Now this is not an end to human hunger, but the world could say, "No kid goes to school hungry," for $1.5 billion a year. After the food crisis about $3 billion a year. But what a powerful safety net that America has learned, even a rich country like America, is you cannot afford to have your kids slip through the cracks.

So even this year I was able to get the first multilateral contribution from Brazil, who gave us the money to look at best practices in school feeding to teach governments how to do this most cost effectively with the biggest nutritional punch, and how to reach the kids most in need. So we are very serious about staying the course on this, and we need McGovern-Dole.

I had President Sirleaf-Johnson of Liberia call me the day before the vote on McGovern-Dole. She said, "What's happening? What's the latest? I need this in my," I mean, she was just, you know, and so the work of the committees and everything is on the mind of the leaders in countries of Africa and elsewhere. She was following committee action on McGovern-Dole. She wanted to know exactly the standing of it. She wanted to know could Liberia count on kids having food in school. This is, there is just nothing more compelling than this program. And I think it is nothing more symbolic of the kind of generosity that America shows to the world.

Mr. MCGOVERN. Thank you.

Ms. SHEERAN. And I want to thank you for your leadership on this.

Chairman SPRATT. Mr. Garrett?

Mr. GARRETT. All right, thank you Mr. Chairman. I just have a couple of questions and I will throw them out first and then look to your answers. And the one was prompted in part by Mr. Hanke's comment with regard to the value of the dollar and how that may impact upon food prices. I am a little bit intrigued by Mr. Bernstein's comment with regard to affecting the rate. So my question is this. With regard to what the Fed has done in recent with regard to, from some perspectives either having a negative influence on the dollar, in other words a lesser value dollar, what is the impact therefore on the price of food? Has the Fed's action when they did such things as, took action with regard recently to the financial situation, crisis, if you will, in the country, with Bear Stearns and like, where they open up the discount windows for thirty some odd billion dollars, the recent action in this past week we took with regard to the GSE situation and the bailing out of Fannie and Freddie to at least the figure of $25 billion at one analysis of CBO to a greater potential of upwards to $5 trillion, what impact does that have upon the value of the dollar and therefore food prices? And lastly, and it may be all tied into that, a question I asked to Ben Bernanke when he reported for Financial Services is what level of ability does the Fed have to continue to take these actions that they have taken, which basically says to extend federal dollars to various financial crises that we have in this country? Is there not some limitation to the Fed's balance sheet in this area? My analysis of it is that what we potentially would be doing, because the balance sheet is not without limit, not the U.S. government's balance sheet but the Fed's balance sheet, is not without limit. So I look at an analysis between $22 billion and $40 billion at some point you are then monetizing the debt. He disagrees with that. We are not monetizing the debt. I would be curious your opinion on that general question.

The second one, totally different, goes to something that hits in my backyard with regard to a particular commodity, and that is sugar. This House has historically from both sides of the aisle, quite candidly, has supported Farm Bills in the past that affect sugar production. And I guess under past law the price of sugar is heavily regulated. Regulated as to how much can be produced in this country, how much sugar can be imported into this country. Also I guess that sugar producers have certain availability through the USDA to certain things called non-recourse loans, that's statutory set loan rates which are beneficial. And also tied to this is the whole energy situation. And I guess we just passed in the Farm Bill legislation saying that if they have any extra sugar then that sugar has to go to certain, what do you call, sugared ethanol programs in this country. So in essence there is not any surplus that you can go to, various programs or to bring down the cost to the consumers. The numbers I have say that the overall policy costs consumers roughly $1.5 billion, that is with a B, annually in higher food prices. And the second little provision, I do not know how little, the sugared ethanol provision costs the consumer roughly $400 million a year in addition.

I would think that in addition to the companies that I represent in my district, which are companies that use the sugar, and some of them are now saying, "Well, we should just go and open our plants elsewhere in the world because it is cheaper." They are impacted by it. I would also think that my constituents who are lower income level have to be impacted by this as well. And so the Farm Bill that we are trying to pass, or do pass year end, Republican and Democrat alike, are supposed to be out there to help the consumer. My analysis of it is just the opposite. Tell me if I am wrong, that at the end of the day what we do actually has hurt the consumer? And if I am wrong, explain to me why I am wrong.

Thank you. I will yield to whoever wishes to address. And why do you not take the financial question first, I guess.

Mr. HANKE. Why do I not start, if you do not mind, Mr. Garrett. On the financial question it relates to what Jared was talking about when he was critiquing my testimony. And number one, I never said anything about increasing interest rates. I do not know where he drew that conclusion. But also, it is very important to realize that if you look at table one in my testimony I do include all the real factors that Jared was referring to. Increased demand from

China, increased demand from India. All these factors are included in the last column. Not in a quantitative sense but I at least give the direction of which way they were going. So all those real factors are included. The big one that counts is the dollar. And this has nothing to do, Jared, with correlation. It happens it is correlated. It is straight causation. And that is if the value of the dollar goes down it simply, the arithmetic works out you have got to pay more dollars to buy a hog if the dollar is weaker.

Mr. BERNSTEIN. If it is an imported hog.

Mr. HANKE. That, no, by, all these are internationally traded commodities. Sugar, we are talking about, cocoa, and so on. And rice, for example, rice was mentioned earlier. It is not in the CRB Index so I did not include it but rice is the same thing. So all these real factors are included by just looking at the right hand column.

Now I did not, and also the overwhelming magnitude of the causation that you get, not correlation, the causation, is the dollar. It is a dollar problem but no one really wants to talk about it.

Now let us talk about sugar a little bit. If you look at sugar in the table here, it says that the weak dollar has caused over 112 percent of the increase in the price of sugar. And then you look to the next column and there is a minus sign. That means that the market itself, the fundamentals, are bearish. In order words, if nothing would have happened to the euro/dollar exchange rate the price of sugar would have actually gone down from 2001. It was 7.39 cents per pound at the end of 2001. And it would have been 6.81 cents if the dollar had just stayed on par with the euro and hadn't changed. That is in the chart too.

Now, bottom line to your question, Mr. Garrett, about has the sugar program, I mean, this is a classic deal that has taken consumers in the United States for one of the greatest rides in history. I mean, end of story. I mean, everyone knows. I mean, this is forty years ago they were writing Phd. dissertations in economics about what a Rube Goldberg kind of affair the sugar program was. So I mean it still goes on. It is very costly. I have not looked at put a sharp pencil to the numbers that you are talking about, but it is very costly for users of sugar. And it is a protectionist program for sugar producers.

Mr. BERNSTEIN. I agree with the last part of the analysis about subsidies. I cannot find any counterargument that makes sense to me. So I agree with you on that point.

I suppose Steve and I could continue to argue about the role of the dollar. The way I would view this would have a lot more to do with understanding the role that the dollar plays in the difference between the prices of food that is imported and food that is traded domestically. I totally agree with Steve that a weaker dollar makes imports more expensive. It also makes exports more competitive. And actually that has been demonstrably helpful to us. It is one of the few areas of our economy that is expanding right now, is the export sector based on a weaker dollar.

Now I did not mean to say at all, Steve, that you suggested higher interest rates. What I tried to say is that was implicit. My interpretation is that is implicit in the sense that if you believe that the Fed did or is holding interest rates too low, I know you did not say that, but if you were to believe that the Fed's interest rates were too low and were leading to the kinds of problems that we are talking today in the panel then you would conclude that the Fed needs to raise interest rates. And in fact it is quite clear that a Fed interest rate, even the pause, they do not even have to raise interest rates, they just stop lowering them, has increased the value of the dollar. So if you believe that the dollar is behind all this then it is absolutely clear that you would logically advocate for higher interest rates, strengthen the dollar, and reverse the problem you are talking about.

Now there are obviously other moving parts that you might not agree with. But that part of your analysis I just do not see how you get away from that.

Mr. HANKE. You get a strong dollar by having a strong economy. So you can do all kinds of things to strengthen the dollar. If you want a policy to strengthen the dollar one thing you could do just on the policy side, the Bush administration and the Congress have had an obsession with the Chinese. They are beating up on the Chinese about the currency. Now that is a weak dollar policy. You want the RMB to appreciate vis a vis the dollar. So the overall thrust in international policy of the Bush administration has been this obsession with one tiny, ill considered in my view, item. And that is the RMB/dollar exchange rate. Which is just complete nonsense and a waste of time. And one reason we are in such hot water right now is that the Treasury has not even been thinking about anything except going to China, you know, and beating up on the Chinese again.

So all of the things with regard to the dollar, we do not have to talk about interest rates at all. We have to talk about things that make the U.S. economy strong. That is what makes the U.S. dollar strong. And as far as the vibes go and the policy thrust goes, we get off of the Chinese case. Because that is an explicit weak dollar policy that we have had. And we have been following it. And of course, no one wants to admit that that is what the policy is. You know, they still every once in a while come out with some kind of language and rhetoric about strong dollar. It is just nonsense. The policy is a weak dollar.

Chairman SPRATT. Let us go now to a real food producer, a Mississippi delta farmer, Mr. Berry.

Mr. BERRY. I find myself in the position of the old story that you heard about Capital Hill, where opponents on the same issue were admitted to the Member's office all at the same time. And they presented their case. And he said, "If you want me to agree with both of you, one of you is going to have to leave the room." I think all of you make good points. I do not think you have to be all broke out in brilliance to figure out that if food costs more it is going to take more money to buy enough for everybody to have enough to stay alive. I think that is just a very simple truth. Your number of $3 billion to provide, I presume, all the children in the world that do not get enough today, how much are we putting into that now? How short are we?

Ms. SHEERAN. There are many, many organizations and many faith based groups that do great work. So I only know our numbers.

Mr. BERRY. Right.

Ms. SHEERAN. But WFP is reaching about 20 million kids a year. The U.S. puts about $100 million into McGovern-Dole's School Feeding, which reaches about 3 million of those kids. One thing we had sought was predictability of that so that we can promise schools we will be with them for three, four, five years. And we have made some progress and I thank you all for that. But there is room to be made there.

So the gap is about 59 million children. And, again, you know, this would be a sliding scale because it is never a permanent charity. So the gap now is 59 million children globally who go to school hungry. Who do not receive any help in school.

Mr. BERRY. And it would take an additional $3 billion to fill that gap, is that——

Ms. SHEERAN. Under our cost structures.

Mr. BERRY. Yeah.

Ms. SHEERAN. You know, and again, we are not talking about meat, potatoes, a dessert.

Mr. BERRY. Sure.

Ms. SHEERAN. We are talking about a humble cup of porridge but it is a lifesaving cup of porridge. We have an ambassador, Paul Tergat, who is the world's fastest man. I think he ran the fastest marathon. And he grew up on the school feeding. And he was saying that before that he would walk to school and faint. He could never, after that it changed his life. So the cup is enough to really sustain life and allow children to concentrate in school.

Mr. BERRY. That seems to be a pretty simple concept to me and it is not that expensive when you spread it out.

Ms. SHEERAN. In a $40 trillion global economy, is this something humanity can figure out now?

Mr. BERRY. Yeah.

Ms. SHEERAN. Is how to ensure that at least no kid goes to school hungry. That is a big investment for humankind.

Mr. BERRY. I thank all of you for your work, and for being here today. I find the economic discussions interesting. And one of the things that interests me about it is that there is never any consideration given that I have ever heard until I ask for it, and most of the time do not get it then, about the connection between the cost of production and how much this, the cost of production has no relationship to what the food sells for. That is the reason we have farm programs. The farmers, the people that produce this food, take what they are offered by the market. It does not matter what the dollar is worth. It does not matter about any of those things, that is what they get for it. They are completely at the mercy of the market. And that is they way they are treated. And it always kind of gets under my skin when people criticize farm programs and I know that is done abundantly here. And that is fine. In this country everybody is entitled to their own opinion. But how we have had these farm programs criticized for these many years we have also had the cheapest per capita food costs in this country of any country in the history of the world. And it remains that way, and I suspect will be for a long, long time. And I think those things need to be entered into the equation along with a lot of other, is it macro? I am a tractor driver. I am not an economist.

But macroeconomic considerations. But I thank all of you for taking your time to be here.

Mr. BERNSTEIN. Can I respond to your comment? You know, I take your point and I think as an economist the cost of production has to be considered in understanding the price of food. And I also understand how critically important these markets are. And the economic conditions faced by our, and natural conditions, faced by our farmers are. And the importance of their ability to hedge, and the importance of their ability to offset years that are particularly unfavorable. And so my comment to the Representative a minute ago was based on a simple calculation of what subsidies cost people. That does not mean that those subsidies are useless, or even necessarily bad, but they are costly. And that money could arguably, is arguably being well spent in terms of diminishing volatility in the markets. The only problem I personally have with this, and you know I am happy to chat with you at your convenience about it, is that the subsidies do not appear to be all at flexible to prices. So that when food prices go through the roof, and the farmers are, price times quantity is going way up, one could imagine subsidies adjusting under those circumstances.

Mr. BERRY. Thank you.

Mr. BERNSTEIN. Thank you.

Chairman SPRATT. Mr. Jordan?

Mr. RYAN. I did not mean to jump on you. I gave Scott the chance to go earlier because he had to get going. So I will take my time now. Thanks.

Mr. HANKE. Mr. Chairman? I was going to respond briefly to Mr. Berry, if I could.

Mr. RYAN. Sure.

Chairman SPRATT. Sure.

Mr. HANKE. He was talking about input costs, the cost of producing food and I wound up by talking about oil prices. And oil and oil products are a very large input into the production and distribution cost picture for food. And looking then at the point that I started out with about the dollar, you have to realize oil is trading now, crude is trading for let us say roughly $125 a barrel. $60 of that $125 price is now accounted for simply by the decline in the value of the dollar since 2001. So anyone, Mr. Berry said he is driving a truck, and obviously has a trucking company or something like that, I do not know the details, and is involved with farmers, and worried about their input costs. Well, if you told a farmer that by having a stable dollar that stayed the same relative to the euro as where it was at the end of 2001 you would knock $61 off the price of a barrel of oil the guy would be jumping for joy.

So this is the point. Coming back to this causation of thing here with the dollar, we are talking about big bucks here with regard to production costs that Congressman Berry was concerned about. Thank you.

Chairman SPRATT. Mr. Ryan?

Mr. RYAN. Bring up chart three.

[Chart]

Mr. RYAN. This is a very interesting conversation and I am glad Mr. McGovern decided to have this. Oh no, I am sorry. Chart six. I will just go through this fairly quickly. This shows, this is a nominal chart, nominal dollars, we have doubled food aid for the federal budget over the last eight years. If you go to chart five, 59.2 percent of food aid by major donors over the 1995 to 2005 comes from this country.

[Chart]

Mr. RYAN. And if you take a look at this dollar issue, we are not stretching our dollar very far. And so you are quantifying it and your cup is being knocked down by 40 percent per cup?

Well, if you could go to chart two, please, this is a little bit different.

[Chart]

Mr. RYAN. We kind of do our own charts here. But I read that Dallas Federal Reserve study, which I commend to anybody. I think it is a very interesting study which attributes and tracks the price of the dollar, the relative price of the dollar, versus commodities. This is the price of the dollar, which is the blue line, versus agricultural commodities, the green line, and oil, crude oil prices, the red line. And you can see a direct causation, I would say, not a correlation. If you go to chart one, we are now in negative federal fund rate times right now.

[Chart]

Mr. RYAN. And so to Jared's point—I am sorry, that is your first name. Mr. Bernstein's point, I apologize.

Mr. BERNSTEIN. You can call me Jared.

Mr. RYAN. To your first point, I would have if I were a Federal Reserve Board governor, voted with Richard Fisher and not voted to cut those last few rates. And the argument would be now we are in negative rates, negative territory. We are feeding inflation. And if you take a look at consumer prices, meaning consumer cost of money, consumer rates are not going down with these federal fund rate cuts.

Mr. BERNSTEIN. Would you raise rates now?

Mr. RYAN. I would take back these rate increases, I would. And I will be brutally honest about that. Because I think we need to do more to leach inflation out of this economy. I think the Federal Reserve is courting inflation. The Federal Reserve thinks they can get this back in the bottle before it is too late. I am suspicious of that. Even the Federal Reserve's own measurements, the TIPS yields, the Mishkin survey, all of them are showing that we have inflation. Headline inflation is screaming, it is a 17-year high. And so if you take a look at what the Federal Reserve has done lately, consumer rates, car loans, auto loans, mortgage loans, credit card loans, those rates are not going down. So this is not even getting passed on to those consumers at the low income scale that we are so concerned about.

So let me just make a point and then I have a question. Ms. Sheeran, did I get that right?

Ms. SHEERAN. Yes.

Mr. RYAN. Ms. Sheeran, I found your testimony very compelling, very interesting, real food for thought, no pun intended. And I think there are many around here that are rethinking this issue. Rethinking the issue from a foreign policy perspective. Rethinking the issue from a "how do we win the hearts and minds," because that is after all what our real foreign policy challenge is now. And when we look at this issue I think a lot of us take more of a sympathetic view to Jim's ideas and his policies. But when you look at the root cause of this, the dollar decline is a major factor here. It is a major factor to low income people in South Carolina. It is a major factor to people in the third world. But then you combine that with what Congress is doing. And I am not blaming Democrats here. Republicans are equally, you know, to blame for this. You get a Farm Bill which I would argue props up prices for commodities. You have got a Farm Bill that among other things led to Doha blowing up yesterday which was supposed to be the third world round. Now we are denying market access for third world countries to get on to lives of self-sufficiency. And so we do not see a real end in sight here. We see the dollar still declining. We see inflation on the horizon. We see the dollars we are spending in these food programs being stretched more thinly. We see no more trade markets opening up for the third world or for our agricultural commodities for that point. We see a Farm Bill that is a protectionist Farm Bill, that is going to prop up prices.

And so let me ask you, Dr. Hanke, to start with. If we were to do what Mr. Bernstein said, or asked, my question, if we were to take back some of these rate cuts from the Federal Reserve. If the Federal Reserve were to tomorrow make a very explicit, I think Mishkin gave a speech on price inflation targeting the other day. That may have made a little bit of a difference. But if Chairman Bernanke, Vice Chairman Kohn were to say, "Inflation is the biggest concern. We now are, you know, we explicitly go after inflation, it is outside of our comfort zone, and we are taking back some of these rate cuts." What do you think the response would be in the markets and with respect to the price of the dollar?

Mr. HANKE. My inclination is consistent with yours and with Fisher at the Fed, the Dallas Fed, the President of the Dallas Fed. So I would have no problem with taking back these. And if we did take back some of them, now this gets to what Jared says was implicit in my statement. I will make it explicit, if that makes you and him happier. I would be inclined towards taking them back in a strategic way because I think inflation is a major problem that hurts everyone. And Jared, you know very well it hurts the poor more than it hurts anyone else. I mean, they are consuming 100 percent of their income. They have no way, they are not saying anything so they do not even have to worry about protecting it with TIPS or some other kind of inflation hedge of some sort. They are right in the corner, just getting screwed into the corner with inflation worse than anyone else. As I said, it hurts everyone but it really is a scourge for poor people.

And so I would be wanting to fight it. And if you took back some of the rate cuts and assuming, you see it gets tricky when you talk about currencies. Because it depends on what the European Central Bank and other central banks are doing simultaneously.

Mr. RYAN. And they have been raising rates.

Mr. HANKE. They have been raising rates because inflation is even more out of control in Europe than it is here. And they have been very focused on getting this thing contained. But again, I think we would have to talk about some things that maybe are near and dear to our heart like, you know, reducing taxes on capital. Remember what Ronald Reagan did and what happened to the dollar when the supply side revolution came in. So, I mean, if you want a strong dollar there are lots of things that you have to look at on the menu and evaluated. And it gets into a fairly complicated picture.

But one thing, a position similar to President Fisher of the Dallas Fed would be the one that I would take. So you would have to conclude that I would be perfectly comfortable taking back some of the rate cuts. And I think there would be a huge rally in the dollar. Gold prices would really tank and commodity prices would come off very sharply. Oil would come off very sharply, combined with this thing that I was mentioning about the Strategic Petroleum Reserve. I mean, oil could come off, you know, $50 or $60 a barrel like nothing.

Mr. BERNSTEIN. Can I just make a quick response?

Mr. HANKE. Sure.

Mr. BERNSTEIN. You know, the story that you are telling and the story that Steve is telling, I understand it. And I think there are a lot of moving parts. And I think you have some of them right and I think you have a lot of them wrong, and we could have a good argument about it.

Mr. RYAN. Do not go and get too Keynesian.

Mr. BERNSTEIN. And as Steve says, there are a lot of complicated moving parts here and I agree with that. I think the whole discussion of the dollar, the macro policy, the SPR, the extent to which dollar policy bleeds through into food inflation is at some level a real distraction from what is so compelling right now that I have tried to express in my testimony, and my two colleagues here, which is just the actual budget constraints faced by people today. Much more severe, of course, internationally, but you can go to South Carolina and see this. So we could have all the great arcane economic arguments you want, and you would score some absolute points. I do not want to suggest that what you and Steve, but the fact is that expanding food stamps is very simple and gets money, you know, gets water on the fire today as opposed to perhaps your macro model, you know, is not really as correct as you think.

Mr. RYAN. Okay. I am not trying to deny that point. If it costs $2 to buy a sandwich instead of $1, you know, you are going to have to add another buck to the till. The point is, what we should be talking about here is what is the root cause of this. Why is this happening? Instead of increasing our budget deficit and paying for more of it. Let us address the root cause of it.

Mr. BERNSTEIN. Can we do both?

Mr. RYAN. Why it is costing so much more. So I am not denying the notion, the need that our dollars are not going as far and therefore we are feeding fewer people. But as a policy maker I think it is important we address the root cause so that we break this cycle.

Mr. BERNSTEIN. I agree with that point.

Mr. RYAN. And so I think it is important for those in the food community who are looking at just expenditures, who are looking at the fiscal side of it, to contemplate the monetary phenomenon behind this and to realize and understand the monetary policy, which I am criticizing our administration's monetary policy. You have heard me do this. I am saying we ought to look at this root cause. And if some better monetary policy were begun, were practiced, I think that is interesting. Let us say we do a 50 basis point hike tomorrow and an explicit, you know, declaration of, you know, in concerns of inflation, you would see a dramatic improvement in these programs and the ability to fund these programs. That is theory but it is theory backed up by a lot of data. It is theory backed up by a lot of sound data.

Mr. BERNSTEIN. You will also see unemployment rise and job losses deepen, and nominal wages grow more slowly. I mean——

Mr. RYAN. Let me throw back at you that. They just laid off, they are closing down a big GM plant in my hometown because of $4 gas prices. Because of oil hitting, you know, $120. The airline in my district just slashed their jobs by 40 percent because of fuel prices. Because they hedged at $80 a barrel, that is what they though it was going to be, and wham.

Mr. BERNSTEIN. We have a national problem with energy.

Mr. RYAN. So inflation is costing jobs in this economy as well. And inflation, I would argue, is probably causing more harm in this economy than these federal fund rate cuts which are not producing results for consumers. These rate cuts are not filtering through to the consumer. They are stoking inflation. And that is the argument that I and others would make. But, yeah, if you want to add, Ms. Sheeran, I want to make sure I pronounce your name right.

Ms. SHEERAN. Thank you, Congressman Ryan. I just wanted to urge that we also look at the food supply issue. Because what we are finding is no matter how much cash we have we are having a hard time procuring enough food. And we are seeing nations having a hard time procuring it. According to IFPRI the world has been consuming more than it produces for the last three years. By the year 2050 the world has to produce twice as much food. This should be very good news for American, because we are one of the major food producers, if not the most major, in the world.

Mr. RYAN. That was my next question. Tell me the story about rice, and about some of the more protectionists policies in other governments, I think India is probably the number one, that have been hoarding rice. Tell me about how that is affecting these programs.

Ms. SHEERAN. I think we are down to less than 7 percent of the rice in the world actually being traded on markets. And actually there is only a small percentage of food that is actually ever traded on global markets. Which is part of the problem, because you just tip that balance just a little bit. You have countries go into hoarding, or building up supplies, or panic buying, and it actually creates a supply problem. And so, you know, part of, you know, if you look at the whole food security structures after World War II they were really designed for a different market, a different world, and different production system. We are now in a world where we have been through a period of time of more abundant food, lower cost food. We need new food security structures in each country to deal with the challenges that we have coming ahead. And we have to look at facts like do we need emergency stocks? Should we have a global SPR for food? All of these issues in order to both deal with price mitigation, but also supply issues. How do we get the production up?

We have a huge burgeoning humanitarian crisis in countries like Kenya, where farmers cannot plant because they cannot afford the fertilizer or the diesel. So we have this kind of compounding crisis. But we also have a supply problem. There is not right now enough food, and all these stocks have been drawn down to all time lows. So I just urge that we also look at this issue. And I think it would serve the United States well to really look at food security to really kind of dust off the whole picture and look at it for the coming years ahead, when the world is going to need twice as much food produced, and how the United States farmers can not only benefit from that but how to ensure that our food security structures are responsive to that.

Mr. RYAN. Thank you, Ms. Sheeran.

Mr. HANKE. Congressman Ryan, on the rice issue I have looked at this quite intensively since I am a professor at a university in Jakarta, Indonesia which was close to the epicenter of the rice problem. And the fundamental problem here is that you have got governments involved in manipulating the rice production and market to such a mind boggling extent, and contradictory policies that are working at cross purposes. And they almost all have buffer stock programs, like the SPR, I mean, you mentioned.

So you are going to have a government. And the government is going to take care of everyone's rice security because they have a rice storage program in Indonesia. Well, the Indonesian program, it is a typical soviet failure where the planners cannot even estimate, even come close to what the supply is going to be in any one year of rice produced in Indonesia, or what even the demand is going to be in Indonesia. So how can you know how much to import? Because the government has a monopoly on importing rice in Indonesia. And how much can you know about storage of rice, and rice buffer stocks? Because the government does not know production or consumption information. So the whole thing is a complete mind boggling mess, country by country, when you go to it.

And of course the key thing is, as you mentioned, you have only got about 6 or 7 percent of world rice production that is actually traded in the international market. So when somebody like the Philippines all of a sudden earlier this year says, "Oh, our buffer stocks are kind of low. We had better get out there and start buying Thai rice," the prices went to the moon because there was not any of it. There was no float, basically, in the rice market. So Mr. Garrett had talked about sugar being fouled up with programs. Well rice, just kind of take a factor of ten and put it on sugar programs, and you have got the rice mess. And of course rice, like sugar, is very important and used everyplace.

Mr. JORDAN. Thank you, Mr. Chairman. And I want to thank our panel, too, for being here. I have got three questions. And Professor Hanke you had talked about this a little bit earlier and I think Ms. Sheeran as well. The first one is, and this, you know, whatever is causing the commodity prices, I happen to think the dollar is certainly a contributing factor, but it seems to me oil drives everything else up. So I want your thoughts on that one commodity and its impact on the others.

The second question would be the ethanol debate that we are having. I come from the second largest ag district in the State of

Ohio. Full disclosure, I have actually voted against the Farm Bill, though, I thought because too much interference in the marketplace, etcetera. But I want to hear your thoughts on the ethanol issue.

And then third, and this is, we have talked about macro/micro. On a micro level third question would be, specific program, and I happen to think, you know, we actually right now in farm policy pay farmers, pay producers, not to produce, the CRP Program. I think it is crazy, particularly when we are dealing with the issues that we have all been discussion here. I happen to think, you know, if we want more supply allow the farmers out, typically it is a 10-year contract, allow them out of the contract. Allow them to plant the ground next year. A lot of farmers will do it, particularly with the prices of our commodities where they are right now. So talk to me about that program, too.

So oil and how it is driving everything, ethanol, and then the third would be the CRP Program. We will start with the economists and then if we have time we will go to the ladies who seem to be getting left out. But go ahead.

Mr. HANKE. The oil price, I do not know the percentage input, but it is one of the top five inputs in production of food. And if you look at the President's Council of Economic Advisors report and go back in the appendices that have all the good data and everything, they have the price indices for the major inputs into agriculture. And of course, fuel is one of them. There are like four or five. So I do not know what the exact percentage is, but it is big time. I mean, we are talking about a big, big input.

Mr. JORDAN. Transporting, moving the food to various markets.

Mr. HANKE. Right. Right. And that table I was talking about in the CEA's report is only production, not distribution.

Mr. JORDAN. Right.

Mr. HANKE. So you have got trucking and all the rest of it. So that is very, very important and that is why I came around to oil at the end and got it involved with the food business.

The ethanol thing, I have not studied this in detail. But I have seen what the IMF has done on it. And the IMF's conclusion in their studies is that the ethanol programs have been a big factor increasing grain prices. They have made a significant contribution. And depending on what IMF study you read it is like between 25 and 50 percent of grain price increases are probably connected with the ethanol programs. So I would suggest to look at their work and, you know, have some of your staff look at it. And it is significant, very significant.

On the last program I do not know the details about this program, okay? So I am not acting as an expert. But I did read in the paper this morning, I think it was in the New York Times, that they are not going to let people take land out of the conservation program and plant even on a temporary basis. Which I tend to agree with you. I mean, why, if we are in a food price crisis, you know, why not add on the supply on a temporary basis and let people take it out of the conservation program?

Mr. JORDAN. Thank you.

Mr. BERNSTEIN. I can be very quick. Oil is important in precisely the way you both alluded to. I think in terms of ethanol I would urge Congress to reexamine the commitments to ratchet up the amount of our corn stock that we are devoting to ethanol. I believe it is 25 percent, going up to 40. Given conditions on the ground and how they have changed it would be, I think, very wise to revisit that and, in the context of the kinds of pressures we face now.

Mr. JORDAN. You are saying turn off the quota?

Mr. BERNSTEIN. Yes.

Mr. JORDAN. Okay.

Mr. BERNSTEIN. And I have a similar view in terms of the subsidies we were mentioning. As I said earlier to Mr. Berry, I do not know if you were here, I absolutely see a rationale for these kinds of subsidies having to do with diminished market volatility, having to do with having to smooth out good years and bad years. However, the way they are applied is much too inflexible given price realities and supply realities. So I would argue to I would call a more realistic appraisal of the need for increased food supply right now would militate against such an inflexible application of those subsidies.

Ms. SHEERAN. Thank you. I am in the hunger business and when I try to determine what the need will be one of the factors I look at is the price of oil for two reasons. One is, I know farmers all over the world would be affected by the price of the inputs and the level of planting that happens in countries will be affected by the cost of inputs and the cost of transportation. And we have seen, again, planting at one-third, one-half of what it was a year ago because of the cost of the inputs.

But also, we are in a world where food and fuel have become inexorably linked. Let us just talk globally now for a moment. When fuel is over $80 a barrel it becomes cost effective to turn food or agricultural products into fuel. And so all over the world you are seeing pretty much anything that you can grow being turned into fuel when fuel prices are high. $80 is about the breaking point for profitability for turning cassava, palm oil, any kinds of oils, any kinds of products, into fuel. And so we are finding, WFP is one of the largest purchasers of grain in the developing world, that we are getting outpriced by fuel buyers all over the world and we cannot compete. I do not have the depth of pockets to compete. And so palm oil now is selling at fuel prices, fuel buyer prices, pretty much on all the markets. And this is driving up the cost. I mean, we are not getting the tenders, and we have our contracts constantly broken. So I am buying food for kids in Cambodia, and I have had three contracts in a row broken after we placed them by people who could come in and outbid that contract to the point that the penalty fee will be paid because the price is so much higher. So it is, there is a whole new world out there in food markets. And they are very linked to the energy buyers.

Mr. JORDAN. If I could just interrupt. Let me ask you specifically, would you be in favor of amending or having some flexibility in the CRP Program, which is the program that, again, pays farmers for not producing on land for conservation reasons, whatever. But would you be in favor of some flexibility in that program to put more land in production next year?

Ms. SHEERAN. Well, we have a problem at WFP which is, again, a supply problem. And I have urged the United States and Europe and others to look at whether or not we need to up the availability of supply for humanitarian purposes.

Mr. JORDAN. Good.

Ms. SHEERAN. Last December, so the U.S. tells us we have a certain allotment of money to buy the food aid in U.S. markets. The U.S. buys in open markets. There was no wheat to buy. It was sold out. 2007 and 2008 crop was sold out. In fact, it was sold out at 120 percent, I think. This is a real issue. So depending on how long and how deep, whatever the cause is, you know, for hungry people in the world whatever the cause is they are asking does the global system have resiliency to help them cope? And so we have to keep buying for our programs. And so whatever it takes to make sure——

Mr. JORDAN. Okay.

Ms. SHEERAN [continuing]. That at least the humanitarian needs of the world are taken care of. I think we all have to think that through because we are having a problem.

Chairman SPRATT. Thank you, Mr. Jordan. I have just a few questions. Ms. Berkowitz, you have been left out of the argument, sandwiched in between all this talk about the value of the dollar. Let us talk about the basics of what you do. How much of your assistance is federally supported?

Ms. BERKOWITZ. No, we do not receive any federal funds for the work we do. We are a private nonprofit and we receive grant donations and other contributions. We used to be federally funded but we are no longer.

Chairman SPRATT. You still get some commodities from, I thought——

Ms. BERKOWITZ. Oh, you are talking about, I thought you meant my program. No, the food bank program does receive federal funds. As a matter of fact, the Food Bank Association negotiated to receive all the TEFAP commodities and also receives administration fees. I'm sorry, I thought you meant my particular program.

Chairman SPRATT. You still get commodities from the USDA?

Ms. BERKOWITZ. Yes, they do. The food banks do get surplus commodities. And they have a contract with the Department of Social Services so that instead of once a month, or once a quarter they used to distribute the foods whether people needed them or not. What they now do is they have them at the food bank so that when people come to the food bank as needed the food banks and the food pantries can distribute them on need.

Chairman SPRATT. Do you give everything away or do you sell some things?

Ms. BERKOWITZ. What the food bank does is they have contracts with sister agencies, where they will sell food at a very reduced rate to soup kitchens, other social service providers, and other pantries. To the agencies they sell, but all that is given to the individuals that come is free food.

Chairman SPRATT. Can a food stamp beneficiary use his food stamps at your food bank?

Ms. BERKOWITZ. Well, no. All the food that is given away at the food pantry is purely given as a donation.

Chairman SPRATT. Okay.

Ms. BERKOWITZ. There are programs, for example Angel Ministries, that does have reduced food packages that will take food stamps so that the food stamps can go further, and they can get more for what they are buying. But at the food pantries they are not purchasing the food at all.

Chairman SPRATT. Do you get State assistance as well?

Ms. BERKOWITZ. I know that the money runs through the State of South Carolina, through the Department of Social Services. I do not believe there is any State dollars that are put into those programs at this time. Last year there was an effort to try to get some State funding for what was called the SNAP Program, which was an after school children's snack program, which I think they are going to have to rename. And unfortunately because the State budgets are in so much trouble, while there was a little bit of money initially in the South Carolina budget for it, it had to be taken out.

Chairman SPRATT. Since you mentioned snack, there was an article yesterday or the day before in the Washington Post about local food banks, suppliers of your kind, becoming much more conscious of nutrition. Do you have the wherewithal to have sort of a pro-nutrition policy in what you distribute and what you recommend?

Ms. BERKOWITZ. The food banks do try to put together packages that are nutritionally sound. Of course, that becomes strained at times because their donations are down. Especially during the summertime when we are finding that the participation has been absolutely tremendous. I mean, summertime you do not have school nutrition programs so you have children at home, and parents are coming in at a higher number. With these families they are trying to provide nutritional packages. But when donations are down, you know, that can sometimes be less so. But I am not a food bank operator so I am not sure I am the best person to provide that information. But I can talk with our food bank association. I would be happy to provide you all that information.

Chairman SPRATT. How many people annually do you serve, or how many families?

Ms. BERKOWITZ. I recently contacted the food bank and the numbers are up tremendously. When I was talking to the head of the pantry for the Harvest Hope Food Bank trying to talk to her about the number of people that were coming through, she had, I think she told me there was about a 35 percent increase, if I am remembering it correctly, over last year. They are, they are overwhelmed. They cannot keep up with the demand.

Chairman SPRATT. So what does this mean to you? Cut back the portion that you give people?

Ms. BERKOWITZ. Well, they have been bringing a lot of folks from our community together to try to talk about how to address that. What they are trying to do is do more with food donations, make sure that they have, you know, the TEFAP and they are getting the emergency food now that they can directly given. They are working with providers to see if they can get donated products. I do not think there is a time that goes by in the week where I do not go somewhere where I do not see a Harvest Hope canister out at some large office building where they are trying to get donations. They are at their total and complete maximum. They are working to try to get food stamp applications at the food bank, so when people are coming who are not on food stamps they can get them on the Program to try to help limit their dependency on the food bank. But even for people who are on food stamps, the food stamps are not going far enough now. They are not, they have not kept up with the cost of food. So they are coming to the food bank mid-month to try to supplement until the next allotment comes at the beginning of the next month.

Chairman SPRATT. Well thank you for your very compelling testimony. We very much appreciate your coming. One last question now I have for Ms. Sheeran. One of the criticisms of our trade policy has been that internationally and I guess the United States too, bilaterally, we have encouraged countries to grow for export in order to build up the hard currency reserves and have the ability to have some resources for construction and modernization of their economies. As a consequence people have, farmers in poor countries, African countries for example, have grown for export instead of growing for their own self-sufficiency. Are we moving away from that policy? And has it been a mistake that we are now coming to recognize?

Ms. SHEERAN. Well I will say that this food crisis has triggered a major debate in the developing world about how they have positioned themselves in food security. So many, many countries did get out of the business of producing food, came to rely on regional and global markets, and now are coming up short and cannot buy. So countries like Liberia, that are out there, that cannot compete for food at the level that it is, their local production really ground down to, you know, very little except for crops for export.

I think we are really in a critical time for the world. When you have a crisis kind of all the puzzle pieces get thrown up and people begin to ask how do they need to come down. And countries are wondering, do they need to hunker down, and build up their own stocks, and hoard, and prepare, and not count on global markets? Or can they count on global markets? And I think this is why Doha was so important, to send a signal that global markets can be relied on. That there will be open trade in food. I mean, you cannot mess around with food, right? You either get it right or you have a big problem in your country. So people are not willing to take a lot of risks.

Chairman SPRATT. Sure.

Ms. SHEERAN. And when I meet now with leaders in Africa or Haiti, and they are not producing enough food, they are wondering if they have to go into a self-sufficiency mode. I will just say, you know, traveling through Africa, not every country can produce every type of crop and it is not cost effective to do so. I was in one African country where there was tremendous hunger. Next door there was a lot of food and there was a 200 percent tariff between the countries. So we do, the world has to look at what type of global trade structures in food will help reduce hunger and the vulnerability of nations. But right now is the time to do so.

And, you know, these things happen maybe at inconvenient times. In the United States we are in the middle of an election and all this. But the signals become very, very important right now. We have countries in deep crisis, good countries, good leaders, who do not know how to get their food security together. So I think you have really hit the nail on the head. And I know that, I think you have owned a farm, you have studied economics, all these things are coming together to be. In food, it is the basic, right? This is not a luxury good. So I am really hoping we can get through this in a way that the world will vote for a food security system where we can be mutually reliant on each other. But I think that debate is going to play out over the next months as countries figure out how to get through this crisis.

Mr. McGOVERN. Mr. Chairman?

Chairman SPRATT. Mr. McGovern?

Mr. McGOVERN. Just a couple, first I want to thank you again for holding this hearing. I also thank Mr. Ryan, Mr. Jordan, and others who have participated here today. I just wanted to make two points which I think are important. One is, we saw a chart earlier about increased spending by the United States government on food and nutrition assistance. I do not know if it was domestic or international. But the reality is that we have spent more domestically but the need has been greater. More people need food stamps today than last year and the year before. More people are hungry around the world, and it is getting worse because of this, the spike in food prices. There is a need. So we are going to have to invest more in the short term. And we have to respond to this crisis in the short term. And in the long term I think all the discussion here has been very, very interesting.

But it struck me that one of the problems we have when it comes to food, hunger, and food security issues domestically and internationally, is that we are not very good in this country in terms of a coordinated strategy. There is not one office that deals with food insecurity issues in the United States. There is not one office that deals with food insecurity issues around the world. I mean, McGovern-Dole is through the USDA. But, you know, but the State Department, USAID do food programs. It is all over the place. And everybody has their own kind of opinion on how best to deal with some of these issues.

Same domestically. I mean, it is not all, even in Congress, it is not one committee that deals with food and nutrition issues. It is multiple committees. And as a result, it seems that we do not have a coordinated, comprehensive strategy. And that is what you need in the long term. I mean, whether it is the monetary issues or whether it is, you know, helping countries around the world develop their own kind of food security, you know, kind of plans. I mean, that is what is kind of lacking here.

And so that is a long term issue. Maybe we need a Food Czar, or whatever, but in the short term I think that there are immediate urgent needs that do not give us the luxury to debate about, you know, what those long term strategies are. I mean, people are hungry. Here, you see it in South Carolina, I see it in Massachusetts. And I see it almost every day when I am home. And around the world the situation has become beyond urgent. So I appreciate very much your testimony.

And Mr. Chairman, I would like to ask unanimous consent to insert a couple of articles in the record, if that is okay.

[The articles provided by Mr. McGovern follow:]

[From Reuters, Wednesday, July 23, 2008]

Pricey Meat to Boost Food Prices 4–5 Percent in '09

By CHARLES ABBOTT

WASHINGTON (Reuters)—Higher beef, pork and chicken prices, driven up by sky-high grain prices, will fuel an increase of 4 to 5 percent in U.S. food prices in 2009, the third year in a row of hefty increases, the government forecast on Wednesday.

Food prices are estimated to rise by 5 percent this year, the largest annual increase since 1990. They rose by 4 percent in 2007, after years of trailing the overall inflation rate.

In its first estimate for 2009, the Agriculture Department said food prices would rise by 4 percent to 5 percent for the year, led by red meat and poultry, which account for 10 percent of food spending. Beef prices will rise by 6.5 percent, it estimated, and pork and poultry by 5.5 percent.

USDA economist Ephraim Leibtag, who prepared the forecast, said higher feed costs "will impact the meat industry, supplies and production will tighten, and prices will rise."

Earlier this month, USDA estimated per-capita meat consumption would drop by 4.6 lbs, or 2 percent, to 215.8 lbs (98 kg) in 2009 as livestock producers trim output.

Corn, wheat and soybean prices at the farm gate are at record highs.

"We're still going to have higher prices but the rate of increase is going to slow down a bit," Leibtag told USDA's radio news service in sizing up 2009.

For this year, the biggest price increase are forecast for eggs, up 14 percent, cereals and bakery products, up 9.5 percent, and fats and oils, up 12 percent.

In that group, cereals and bakery products are the largest component of the food basket, 7.4 percent of overall spending. All would moderate in 2009, rising at 4 percent or less.

Americans spend more than $1 trillion a year on groceries, snacks, carry-out food and meals in restaurants. Farmers get 20 cents of the food dollar. The rest goes to processing, labor, transportation and distribution.

[From the Boston Globe, July 16, 2008]

Schools Feel Crunch on Lunch Programs

Food Costs Hit Budgets Hard

By JAMES VAZNIS, *Globe Staff*

The rising cost of grain, milk, and vegetables is expected to drive up school lunch prices this fall for tens of thousands of students, causing even further financial hardships for already-strapped public school systems across Massachusetts, education officials said.

Some of the school systems that will be hit the hardest are the ones trying to offer the healthiest menu choices—fresh fruits and vegetables and other vitamin-rich choices that cost more than the processed fare that marked school lunches of old.

Dozens of districts, such as Brookline, Chelmsford, Quincy, and Marshfield, will increase prices 25 cents to 50 cents this fall in hopes of avoiding a deficit next year.

Tonight, the Boston School Committee will consider a plan to close an estimated $3.8 million deficit in its food service program for this past school year and a projected $6.7 million deficit for the coming year. A district spokes man said the plan is not expected to include a price increase. Rather, it will look at greater efficiencies and encourage more parents to apply for federally subsidized free or reduced-priced meals.

Lunch programs are the latest victims of surging fuel costs that make it more expensive to deliver food. School officials are already seeing the impact of dwindling state local aid dollars and a reluctance on the part of voters to support property tax increases in the form of overrides.

School leaders across the state are concerned that the higher prices could prompt some students from working-class families who don't qualify for federally subsidized meals to skip lunch. They also are concerned that cafeterias could be forced to scale back menus, possibly cutting healthier items because they cost more. Dedham, for example, may stop serving fresh-fruit cups.

"This will be the most difficult year we've had since the early 1980s," when the federal government cut reimbursement rates to local districts to balance its own budget, said Joanne Morrissey, Quincy schools food service director and president of the School Nutrition Association of Massachusetts.

Nationwide, 75 percent of school districts are expected to raise lunch prices this fall, far more than the 30 percent that traditionally raise prices in a given year, according to the national School Nutrition Association. The average national price of a school lunch is expected to be $1.98, a 32-cent increase from this past school year.

"We truly are at a point of crisis," said Katie Wilson, president-elect of the national School Nutrition Association, who last week asked a congressional committee to increase federal assistance and make meals free for all students. "Without proper nutrients, brains don't operate properly. How can you concentrate on calculus when you are so hungry?"

School districts are feeling the pinch after spending the past few years bolstering the nutritional content of lunches amid national concerns about increasing childhood obesity. Many cafeterias no longer fry foods and are offering made-to-order sandwiches, soup and salad bars, whole-grain breads, and more meals made from scratch.

This approach allows schools to better control sodium, sugar, and fat content but requires more labor. But school districts had not expected prices to soar.

Meat costs have risen by 11 percent over this past school year, fruits and vegetables by 13 percent, bread by 17 percent, and milk by 19 percent, according to preliminary results of a meal cost survey conducted this summer by the national School Nutrition Association.

And like many restaurants, cafeterias are moving away from or responding to local bans on trans fats. But alternatives cost more.

"If I wanted to go with frozen bags of vegetables and more prepared products rather than cooking from scratch, could I balance my budget? Yes, but that's not the kind of food the community wants," said Ann Johnson, food service director for Brookline schools, who declined to disclose the amount of the deficit in her approximately $1.5 million annual budget.

Last week, the federal government announced that it would raise its per-meal reimbursement rate for students who qualify for a free meal to $2.57, a 10-cent increase over this past year and one of the highest increases in recent years.

Yet the national school nutrition group says the increase is not enough to cover inflation and the true per-meal cost of $2.88 to prepare a healthy lunch. The group predicts that school nutrition programs could lose about $3.3 million per school day nationwide next school year.

To avoid deficit spending, the Massachusetts Department of Elementary and Secondary Education recommends that districts complete a monthly reconciliation of costs, training staff on proper portion sizes and purchasing food through regional collaboratives and the state, which most Greater Boston school districts already do.

In one controversial move, Chelmsford is turning to a private Andover-based company that prepares and sells prepackaged school lunch items in individual servings. The move will save the district about $225,000 next year by eliminating six school food service managers and reducing work hours of the 34 remaining cafeteria workers so many of them no longer qualify for benefits.

But the district, which is reeling from voter rejection this year of a $2.8 million property tax override, will still have to increase lunch prices by 25 cents.

"It's tragic," said Chelmsford's superintendent, Donald Yeoman, noting that many of the laid-off workers had been there for 15 years or longer. "They were great, great people and employees, but my job is to make sure we are in the black, and we have to be efficient."

Mr. McGovern. And again, I thank you very much for holding this hearing. Thank you all.

Chairman Spratt. Let me thank our panel again for an excellent presentation, and for your forbearance while we had to go for votes as well. We appreciate your coming. We have learned a great deal and in the coming years I think we will put to our use some of the things we learned from you today. We appreciate it. Mr. Ryan, would you like a parting comment? Thank you very much indeed.

[Questions for the record submitted to witnesses from Ms. DeLauro follow:]

Question for the Record Submitted to Ms. Berkowitz From Congresswoman DeLauro

1. While the cost of food rose by 6.1 percent from June 2007 to June 2008, the cost of the Thrifty Food Plan (the mix of food items on which low-income people rely) rose even faster—8.5 percent over the same time period. The Thrifty Food Plan market basket priced in June determines the amount of the maximum food stamp monthly allotment households can get during the following fiscal year (starting October 1st). This means that when FY 2009 begins in October, food stamp benefits

will already be four months out of date, and will grow more out of date as the year progresses. If food inflation next year equals this year's levels, the shortfalls will be twice as large. We tried to provide some relief in the farm bill, but the farm bill's improvements will not address the increased cost of food over the fiscal year if food inflation proves to be high again next year and will not help many of the poorest families who struggle the most to afford sufficient food. This demonstrates the need for a second stimulus package. You mentioned some of the heartbreaking stories about the perils that some South Carolina families are facing. What are some of the trade-offs that you have seen these families make when escalating food prices do not fit in their budget?

Question for the Record Submitted to Mr. Bernstein From Congresswoman DeLauro

1. Congress is in the process of considering provisions to include in a second economic relief package. Rising food prices are one of the many pressures that are depleting low-income families' budgets. In addition, any stimulus package will have to be targeted given our tight budgetary environment. What are your recommendations for programs that would create a simulative effect in the economy and help low-income families weather the economic downturn? Do you believe that a temporary increase in food stamps would help people through this sharp spike in prices, as well as their other economic stresses?

Questions for the Record Submitted to Ms. Sheeran From Congresswoman DeLauro

1. It is clear that an immediate international response is required to address the global food crisis and to ensure that the underpinnings of long-term solutions are in place. Earlier this year, you had mentioned that the United Nations is coming together to tackle this emergency. You also indicated that the World Bank President has called for a "new deal" on global food policy. Are you able to outline what this 'new deal' would entail?

2. Your testimony mentioned how the McGovern-Dole program provides school meals for 20 million children throughout the developing world. As you know, my colleague Jim McGovern and I fought to have increased funding for this program in the farm bill because it is programs like this that are critical in helping nations increase safety nets such as school feeding and productive social safety nets. The point you make in your testimony underscores the point that we tried to make during the farm bill debate and that is—if a school meal or take-home ration is provided to girls, it virtually guarantees that parents who would never do so otherwise, would allow their girls to attend school. It truly is the most effective human rights program for girls. Do you have any statistics on how the McGovern-Dole program has increased school attendance for these girls or any other statistics that quantify the significant impact this program has on school girls in developing countries?

3. You have been a leader in raising the issue of the global hunger crisis. I consider your voice the "canary in the coalmine" raising awareness and giving warning of this crisis that is bound to get worse before it gets better. The hunger crisis threatens to pull more than 100 million additional people into poverty—on top of the nearly 1 billion people who currently live on less than $1.00 per day. Our attention to this crisis is not only a moral imperative; it will literally save lives. What steps can the United States take that will immediately help put food in the mouths of those who are desperate and how would you recommend changing our food aid programs to address this global crisis?

4. As you know WFP in 2000 launched a global school feeding campaign aimed at putting in place national school food for education programs and the McGovern—Dole International Food for Education and Child Nutrition Program uses food as an incentive to improve education and nutrition. Can you comment on the importance of international school feeding programs and the data that WFP has gathered with regard to the effectiveness of school feeding programs?

[Responses to Ms. DeLauro's questions follow:]

Respondents' Answers to Ms. DeLauro's Questions

Q1. The UN-wide response to the global high food and fuel prices emergency was developed by the UN Food Crisis Task Force chaired by Secretary General Ban Ki-moon. The Task Force called for immediate interventions to meet the needs of the hungry, while acknowledging the fundamental urgency of addressing medium and long term needs.

On a related track, World Bank President Robert Zoellick's call for a "New Deal for Global Food Policy" was endorsed by the Spring 2008 World Bank meeting of Finance Ministers. The proposal emphasized the need to shift from traditional food aid to a broader concept of food and nutrition assistance, focusing not only on hunger and malnutrition, access to food, and food supply, but also addressing interconnections with energy, yields, climate change, investment, the marginalization of women and others, and economic resiliency and growth. This was quickly followed by the launch of the World Bank's $1.2 billion rapid financing facility in May 2008—the Global Food Response Program. This Program has approved and begun disbursing $851 million in 27 countries.

WFP has been playing a key role in the design and implementation of the UN wide response to the global food crisis. It has also worked closely with the World Bank on implementation of the bank's global food response program, with WFP receiving funds in several countries from the Bank's rapid financing facility.

Q2. WFP has not undertaken a study specifically of McGovern Dole school feeding projects. A broader study of WFP's school feeding programs in 32 countries in Sub-Saharan Africa from 2002-2005, many of which countries receive McGovern Dole funding, revealed that the average absolute enrollment increased by 28 percent for girls and 22 percent for boys during the first year of a school feeding program. Programs which combined the provision of take-home rations for girls with on-site feeding for all pupils sustained rates of increased girls' absolute enrolment at values around 30% year on year. Programs that did not offer the take home ration along with the on-site feeding saw the initial increase in girls' absolute enrollment but without subsequent increases in attendance rates year on year.

Q3. Historically high food prices are being followed by continued market volatility. A global financial crisis is enveloping the developed world and is spilling into the developing world as incomes are affected, and trade, capital flows and remittances slow. The UN Food and Agriculture Organization estimates that the number of hungry people in the world is nearing 1 billion. WFP already needs to reach about 100 million of the world's hungriest people in 2009 at an expected cost of US$5.2 billion. Without a rapid injection of funds, millions of people in Afghanistan, Somalia, Haiti, the Congo (DRC), Ethiopia, Kenya and other hunger hot spots will run out of food assistance by Spring 09.

There is no radical change required in US food aid programs to address the immediate humanitarian challenges; US food aid programs need immediate cash infusions on a scale to fit the need.

But as the GAO has pointed out, the various US programs are not closely coordinated and lack balance and proportion in light of the needs. For the intermediate to long term, the US needs a comprehensive plan to enhance current programs and take them to scale. Essentially, we need to help the world do today what the US did at home in the '70s—shore up tools to help those in acute need, enact rapid-impact programs to boost agricultural productivity and stave off next year's and next decade's emergencies, strengthen nutritional assistance for the most vulnerable members of society (analogous to the WIC, food stamp, and school lunch programs all across America) and to the maximum extent possible, structure assistance as productive investments to break cycles of hunger among the most vulnerable. This means increases in current food aid levels—both in-kind and cash; increases in school meal programs and a wide range of other efforts to promote child nutrition; increased support to international agriculture development programs; and flexibility to provide assistance tailored to the specific beneficiary needs and market dynamics of any given hunger situation,.

My staff is currently working within a partnership of several US NGOs, think tanks, and international organizations to articulate a comprehensive plan of action. The proposals will be ready by early 2009. I would be more than happy to share the details with you.

Q4. School feeding is an all round win.

Studies by IFPRI and others confirm that a meal during the school day promotes the nutrition and concentration children need to learn and to grow. Food also attracts children to school and encourages parents to send them there. In schools where WFP provides meals, absolute enrolment increased by 28 percent for girls. Child enrolment increased on average by 14 percent in schools with WFP school feeding programmes.

School feeding also helps improve the health and nutrition of students by providing needed micronutrients, vitamins and minerals. In the United States, school feeding has been a flagship programme for more than half a century. Increasingly, WFP is using micronutrient powders, also known as Sprinkles(tm) or MixMe(tm), to fortify school meals and maximize nutritional benefits. These products can produce dramatically improved outcomes—particularly for children. In 2007, deworming was implemented in 27 percent of WFP-assisted school feeding projects and reached 10 million children.

School feeding is a powerful and affordable human rights programme for girls. Globally, half of the school children WFP feeds are girls, many of whom also get a take-home ration as an incentive for attendance and enrolment.

School feeding provides a platform for delivering complementary activities like deworming and micronutrient supplementation, fuel-efficient cooking stoves, water and sanitation at school, health education, HIV/AIDS education, psycho-social support, malaria prevention, and school gardens.

Home-grown school feeding (HGSF) aims to increase school enrolment while promoting increased local food production in rural food insecure areas and supporting small-scale farmers.

It costs 25 US cents a day to give a child a WFP school meal or US$50 a year. About 59 million primary school-aged children attend school hungry throughout the developing world, with 23 million of them in 45 African countries. To feed 59 million hungry schoolchildren it would cost the world just $3 billion a year—a small investment with a huge return.

[Whereupon, at 4:53 p.m., the Committee was adjourned.]

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