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HOW ARE HIGH FOOD PRICES IMPACTING AMERICAN FAMILIES?

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BEFORE THE

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JOINT ECONOMIC COMMITTEE

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HOW ARE HIGH FOOD PRICES IMPACTING AMERICAN FAMILIES?

THURSDAY, MAY 1, 2008

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met at 10 a.m. in room SH–216 of the Hart Senate Office Building, the Honorable Charles E. Schumer (Chairman of the Committee) presiding.

Senators present. Schumer, Klobuchar, Casey, Brownback, and Sununu.

Representatives present. Maloney, Cummings, Saxton, and Brady.

Staff present. Christina Baumgardner, Ted Boll, Heather Boushey, Gail Cohen, Chris Frenze, Tamara Fucile, Nan Gibson, Rachel Greszler, Colleen Healy, Aaron Kabaker, Israel Klein, Tyler Kurtz, Michael Laskawy, David Min, Robert O'Quinn, Jeff Schlagenhauf, and Jeff Wrase.

OPENING STATEMENT OF THE HON. CHARLES E. SCHUMER, CHAIRMAN, A U.S. SENATOR FROM NEW YORK

Chairman Schumer. OK, the hearing will come to order. I'd like to welcome you all to our first Congressional hearing this year about the soaring price of food and the impact on families across America.

For many years, price increases in certain foods like cold cereal have vexed consumers, but now we are hearing from people about food prices going up across the board.

When you walk down the street, you hear people complaining about food prices almost as much as gas prices. While gas prices seem to be the number one issue today, I believe anxiety felt over higher food prices is going to be just as widespread and will equal, or even surpass the anger and frustration so many Americans have about higher gas prices.

I want to look at what's behind the rise in food prices, and frankly, what that rise in prices looks like for average American families.

My wife, Iris, and I went to Fairway last weekend, our neighborhood grocery store in Brooklyn, and we continue to be floored by the prices. From aisle to aisle, shelf to shelf, including everything from staples to special treats, the prices families are paying to fill up their shopping carts go up and up and up, and they go up a lot.

While we've been cringing at gas stations, as gas prices have more than doubled since 2001, now it's a double-whammy. People pay more to drive to the supermarket and then get hit with higher prices when they get there.

Our family does pretty well, but even we feel it. Like many others, we have a family budget, and right now, we're budgeting $40 more a month for groceries; and while we feel the $40 is something we can afford, many families just can't.

They don't have the extra income for higher food prices and have to stretch their dollars, or even worse, cut back on their food purchases altogether.

The price of milk, cheese, chicken, eggs, ground beef—regular stuff, nothing fancy—are way up. If you're trying to eat healthier, it's even worse.

Now when we buy—when we go shopping, we buy this light wheat bread, like this loaf here. We're paying almost $4 now, and that's up from $3 since we started eating it a few years ago.

I'm a meat-eater, and what we buy now is largely dictated by what's on special that week at Fairway or at Costco.

My daughter, like many young people in families now, wants to buy organic chicken and organic food. Those prices are shooting even higher.

At Fairway, we can buy a regular chicken for about $5—and that's also an increase—but an organic chicken is $12. This dozen of organic eggs cost my staff about $6 this morning.

So, everywhere you go, prices are higher and higher and higher. And higher food prices have squeezed small businesses, too.

Our local bakeries, two of them, closed recently: Uprising, which sold bread and cakes, and Regina's Italian Bakery, which had been there for decades and decades and decades.

Was it because of higher grain prices? I don't know for sure, but it certainly wasn't because local bakeries are making a killing off their local customers. Even bagels are over $5 for a dozen now.

When it comes to higher food prices, even when they're not going up by large percentages, there isn't much room for error.

Everyone has to buy food to feed their families. It already swallows around 12 percent of the average household budget.

When gas prices are high, families may decide to drive a little less or carpool or take the subway. When food prices are higher, families just can't decide not to feed their children. That's not acceptable.

And because they have less to spend on food, what they do buy is less and less healthy. Now to be clear, not every single product in the grocery is more expensive than it was 1 year ago, or even 7 years ago.

Some food products, because of more efficient processing, less transportation, or just more plentiful supply, cost consumers less or as much as they have for years. For instance, the price of pork per pound has gone down about 20 percent from January 2001 to last month, but the prices of the staples we all depend on for a healthy diet—eggs, bread, milk, fruits—are rising by eye-popping leaps and bounds, especially in the last year.

For instance, between January 2007 and 2008, egg prices went up nearly 40 percent and are about 80 percent higher than they were in January of 2001, and eggs are just one example in a broader trend. From January 2007 to January 2008, the Consumer Price

Index (the CPI) for all food grew by nearly 5 percent. That's the highest 12-month increase in over 17 years.

Americans are paying 5 percent more for food; at the same time many people are seeing their paychecks shrinking.

As we will learn in more detail from our panel, flour prices have gone up at least 30 percent since January 2001. This has raised prices for good old processed white bread, but has also raised the costs of fresh-baked breads—rolls, muffins—things you might buy at Reinwald's Bakery, or H&H Bagels.

Another area that's not on the radar screen just yet, but will be a bigger problem as farmers adjust their crops, is the rising cost and potentially dwindling supply of fruits and vegetables. Apples, grapefruits, potatoes, beans, and broccoli have gone up over 20 percent since January 2001. Peppers are almost 40 percent more expensive.

While some might be telling us to make lemonade out of the lemons this economy has given us, even this is going to be more expensive. The price of lemons has gone up nearly 50 percent.

Now, we have some charts here on the prices for foods, vegetables, grains, milk, and eggs. Let's look at the average price of items we shop for in our grocery stores, and how much they've gone up since last March.

As I said, fruits and vegetables have gone up a lot. This is just from last March: Peppers, 20 percent; tomatoes and bananas, 13 percent; apples, 10 percent.

Look at the next chart. Pasta, up over 13 percent; a regular loaf of bread, 12 percent; a pound of beans is 17 percent higher; flour is up a whopping 32 percent.

The next one: milk—a staple—20 percent higher a gallon; buying a dozen eggs is 30 percent more expensive than it was last year.

[Chart entitled "Fruit and Veggis Prices are Soaring Past Inflation" appears in the Submissions for the Record on page 44.]

[Chart entitled "Grain and Bean Prices are Soaring Past Inflation" appears in the Submissions for the Record on page 45.]

[Chart entitled "Milk and Egg Prices are Soaring Past Inflation" appears in the Submissions for the Record on page 46.]

So while the economic message that we're getting out of this Administration sounds like let them eat cake, I assure you, it is much more expensive cake than you were eating when President Clinton was in office.

Even the foods that aren't going up as much are still going up beyond the level of inflation.

Then there are energy costs. Two of the main culprits sending food prices higher are commodity and energy costs. Agricultural prices were up over 33 percent in the past 12 months, and between March 2007 and March 2008, inflation-adjusted corn and soybean prices shot up 35 and 67 percent, respectively.

To Mr. Reinwald, the baker from Long Island—to Mr. Reinwald's detriment, wheat prices increased unbelievably by over 130 percent.

Energy is a key ingredient to the food industry, both for primary commodities and for processing, marketing, and distributing everything from apples to zucchini and bread to yogurt, and of course, the price per barrel of oil has skyrocketed beyond $100, and today it was $116.

The price for natural gas, which is the primary ingredient for making fertilizer, is up 33 percent; diesel fuel, which not only trucks our goods, but most farmers use diesel fuel in their combines and tractors and other farm machinery, that's up 45 percent; and regular unleaded gasoline, of course, has gone up 27 percent.

High gasoline prices don't just raise the transportation costs, they also increase the demand for gasoline substitutes, mainly ethanol derived from corn.

On top of the higher gasoline prices, tax subsidies and Federal biofuel mandates have boosted the amount of domestic corn products devoted to producing ethanol to one-quarter of the crop in 2007, while it was less than 15 percent in 2005. That's a lot of corn taken out of food production.

And in 2008, over 30 percent of the corn crop will be going into gasoline tanks, according to USDA estimates. This has obviously raised the price of corn and grains, because farmers have shifted more land into corn production, squeezing domestic supplies of wheat and many other crops.

In other words, you don't have to be a big corn eater to feel the results of the demand for corn, because when farmers produce more corn, they produce less wheat and everything else, and that drives prices up across the board. Corn, soybean, wheat, and energy prices have gone up so much that consumers are seeing significant increases in the price of groceries.

Eggs and dairy prices are up sharply in part because the cost to feed animals has doubled since 2001. Energy costs have helped drive fruit and vegetable prices higher, because highly processed foods are less vulnerable to higher commodity prices, but are still going up because of increased energy costs.

The Food and Agricultural Policy Research Institute predicts that continuing high oil prices and biofuel mandates from last year's energy bill will keep prices at historic highs across the board.

It is critical to remember that commodities are global, and supply reductions in other countries are transmitted to prices paid in U.S. markets. Bad weather, like droughts in Australia and Eastern Europe, and reduced production in Canada, Western Europe, and the Ukraine have put world grain stocks at historically low levels, as demand has grown, especially in places like China and India.

Beyond increasing energy prices—biofuel mandates, global demand and weather issues—speculation emboldened by low interest rates may also have some role in raising prices for consumers. Low real interest rates increase the profitability and decrease the risk of speculating in commodities and also act as a hedge against inflation.

Moreover, the falling U.S. dollar has decreased consumer purchasing power and made these higher food costs tougher to swallow, especially among lower- and middle-income families.

Now, you can see from this chart the percentage of family budgets that goes for food. These families are spending even a higher percentage of their income on food.

[Chart entitled "Nearly All Families Spend Over 10% of Income on Food" appears in the Submissions for the Record on page 47.]

And you can see that the lowest quintile spends 32 cents of very dollar on food. That's a third. It goes to 16 percent to 7.2 percent for the highest, and senior citizens, of course, spend a little more, 11.8 percent.

According to this chart, 80 percent of families spend more than 10 percent of the budgets on food, and for the bottom 20 percent—families that make the least—one in three dollars they earn, after taxes, goes toward buying food.

So, higher food prices are especially bad news for poor households. The share of U.S. households that receive food stamps has climbed dramatically from 7.5 percent in December 2001, to over 11 percent in December of 2007, and these numbers may even understate the problem.

On a global scale, higher food prices and scarcity are leading to civil unrest in many developing nations like Haiti that almost solely rely on imports for food. Last week, Costco and Sam's discount stores were limiting the amount of rice customers could buy. It's another place where food prices have gone up.

Prohibiting customers from buying more than four 20-pound bags of rice certainly isn't going to cause riots, but it's evidence that families, even here at home, are anxious.

Getting to the bottom of high food prices will not be easy. There are multiple causes, but as we consider appropriate policy responses, we need to understand them and hopefully, our panelists will help us do that today.

[The prepared statement of Senator Schumer appears in the Submissions for the Record on page 48.]

Chairman Schumer. Congressman Saxton is our next speaker. We're going to let everybody make brief opening statements today, if you so wish.

OPENING STATEMENT OF HON. JIM SAXON, RANKING MINORITY, A U.S. REPRESENTATIVE FROM NEW JERSEY

Representative Saxton. Mr. Chairman, thank you very much for holding this hearing. It obviously is a subject that is of great importance to American families, and I might add that it's of great importance to your staff, as well, and I hope you do reimburse them for the cost of the eggs.

[Laughter.]

Chairman Schumer. It's a lot of their salary.

Representative Saxton. Let me join you, Mr. Chairman, in welcoming our panel of witnesses today. In recent months, the rise in commodity prices worldwide, has led to increases in the price of food in the United States, as well as in many other nations.

We're all concerned about the impact of food prices on the American family, and you have pointed out many examples of why we should be concerned about that and the effect that it has on families.

The global food crisis has led to outbreaks of food riots and potential famine in other countries which is disturbing, as well.

What has caused this spike in food prices is a great question and a question that we should try to shed some light on. The global food crisis, as you have pointed out, Mr. Chairman, has multiple causes.

One factor is higher demand for food in China, India, and other countries undergoing rapid economic development. Another factor is drought, as you pointed out, Mr. Chairman, and conditions in Australia and other grain-exporting nations.

An additional factor has been export tariffs on food imposed by several countries. Since many farm commodities are traded globally, the effects of these international factors on U.S. food prices should not be neglected.

Government policy has also made major contributions to the food crisis. As the respected Financial Times noted just the other day, protections, subsidies, and other such follies distort agriculture more than any other sector.

The present crisis is a golden opportunity to eliminate this plethora of damaging interventions. Unfortunately, despite sky-high food prices, the U.S. Congress seems to be moving in the opposite direction.

According to one Democratic Congressman, obviously from the House side, the forthcoming Farm Bill looks like a nightmare and negotiators, quote, "Manage to avoid every opportunity to reform wasteful, outdated subsidies. Consequently, not only will consumers be hit with higher food prices they will have to pay again to finance billions of subsidies for farmers, a number of whom are already quite wealthy."

The U.S. import tariff on ethanol is another factor contributing to higher food prices which you also mentioned, Mr. Chairman. This tariff provides an incentive for farmers to produce more corn than they otherwise would for the domestic ethanol industry.

If the tariff were repealed, farmers would have more incentive to produce corn and other crops for food, increasing supply. Finally, to the extent that the Federal Reserve monetary policy has been too easy, short-term inflation pressures may have increased rising commodity prices, in general.

In addition, higher fuel prices, partly due to OPEC's restrictive policies have contributed to the increase in food prices by boosting the cost of fertilizer, processing of foods, as well as transportation.

As consumers face higher prices in the coming months, Members of Congress will continue to express their concern. However, what matters more than rhetoric is the action that Congress takes.

Will Congress actually proceed to enact what has been described as a nightmare of wasteful, outdated subsidies, even as food prices continue to rise, or will there be a genuine reform at a time when food prices have risen dramatically? As things appear now, the prospects of reform don't look particularly promising.

If this is the case, consumers can look forward to paying high food prices and then paying again as taxpayers finance billions of farm subsidies. The opportunity for reform will have been lost. Mr. Chairman, thank you very much.

[The prepared statement of the Representative Saxton appears in the Submissions for the Record on page 51.]

Chairman Schumer. Thank you, Ranking Member Saxton. Now, Vice Chair Maloney.

OPENING STATEMENT OF HON. CAROLYN B. MALONEY, VICE CHAIR, A U.S. REPRESENTATIVE FROM NEW YORK

Vice Chair Maloney. Thank you, Chairman Schumer, for holding this hearing to examine rising food prices and the impact it's having on American families. Just last week, Chairman Schumer, I had a town hall meeting with my constituents and the high price of food was very, very strong in their comments and very much on their minds.

This week, big oil companies are reporting record profits, but families are struggling to make ends meet in the face of stagnant wages and rapidly rising fuel and food prices.

In some areas of the country, people are paying $4 for both a gallon of milk and a gallon of gas. Families are forced to cut back on meats and fresh vegetables for lower-cost items such as pasta and canned foods. Some are calling this "the recession diet."

As the price of oil sets a new record almost daily, it is clear that rising fuel costs are driving up the cost of food. Higher energy costs have driven up the cost of commodities such as corn and wheat, feed for livestock, and transportation to get products to market.

As we will hear from our witnesses today, other factors have also contributed to rising food prices, such as growing global demand, severe weather in farm regions, and increased speculation in commodity futures that have caused price spikes for certain crops.

In our quest to become less dependent on foreign oil, we face a new dilemma between raising crops for food or fuel.

We will hear from a bakery owner in New York who has seen prices spike for fuel and grains, on top of declining sales, as consumers cut back. We will also hear from Second Harvest about how food banks are seeing an increasingly large number of people seeking help while food donations are declining.

The Food Bank for New York City and City Harvest serve over 300,000 people per month, many of whom are the working poor who have to choose between food and utilities, housing, or health care each month.

We need to find ways to bring relief to families who are feeling the squeeze of higher prices. We have taken concrete steps in the House to try to end unnecessary subsidies to big oil companies, and to invest in clean fuels and efficiency by passing the Renewable Energy and Energy Conservation Tax Act back in February of this year. And last year's Energy Bill ensures that biodiesel sources, such as switchgrass are key ingredients of renewable fuels.

The President and Republicans in Congress blocked attempts to expand food stamp and unemployment insurance benefits as parts of the first stimulus package. The Speaker has urged them to come back to the table to negotiate a second stimulus that would include both of these measures for struggling families.

Mr. Chairman, I thank you for holding a hearing that is tremendously important to the constituents that we represent, and I yield back the balance of my time.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 52.]

Chairman Schumer. Senator Brownback.

OPENING STATEMENT OF HON. SAM BROWNBACK, A U.S. SENATOR FROM KANSAS

Senator Brownback. Thank you, Mr. Chairman, thanks for holding the hearing. I appreciate the panelists that are going to be coming up.

I think, you know, a fair reading of the factual setting and looking at the situation, probably produces four major factors that are in play right now.

Clearly, at the base of it is the price of oil that's so much of a fundamental part of so many pieces of our economy and globally; the value of the dollar is clearly having an impact on the commodity markets; production problems we've had in agriculture and various sectors and places around the world; and I would also add with that, exacerbated by Government policies in different places, and then finally, the speculators parking funds, major hedge funds, index funds, driving commodity prices on a near-term basis.

And I think that if you look at those four, you've got most of the factors that are driving prices today. What I hope we will do is look sensibly at these and not exacerbate the problem with policies that would hurt further.

Clearly, oil is behind a lot of it. My family farms—my dad's a farmer, my brother's a farmer. Former Secretary of Agriculture, John Block, says the cost of raising a crop has jumped by perhaps 40 percent.

That's mostly driven by energy prices. You go to fill the tractor up with diesel and it's the same price everybody else pays for it. Fertilizer is energy-based, and it's gone up a huge amount in cost.

The lower value of the dollar, clearly, it's helped, I think, our economy. It's helped us on exporting and it's helped us on manufacturing exports. I see that in my State. It's helping us on exporting crops.

There's another side of that. You've got a declining value of the dollar, and a lot of people will put that money then into commodities, say, as a protection or a hedge against. That may then drive up your commodity prices.

So one of the things that I would hope we'd do, Mr. Chairman, is get the Federal Reserve Chairman Bernanke back up again. A lot of us have been pushing to have a cheaper dollar as a way to try to stabilize the financial markets.

Yesterday, they're sending the signal that maybe we're going to stop doing this, and we need to start looking on the other end, which is inflationary factors that you get, and I think it's probably time for us to have a discussion about inflation.

Clearly, we've had some production problems in agriculture. Mr. Chairman, I would enter into the record the world wheat supplies. That's the crop I'm most familiar with, being from Kansas.

We've seen a 45-percent decline in ending stocks for wheat, from 2000 to the present date, 45 percent drop in supply—ending supplies. That's the market driving factor there. That's what everybody here that's buying these things is looking at, how much do we have out there?

Last year, at Easter, we had a frost and it cut our wheat crop a good 40 percent in Kansas, one frost. Well, then that's reflected in ending stocks.

I would also point out, though, that markets do work. I pulled up the Wall Street Journal Wheat Futures Prices, and I want to enter this into the record, as well.

Chairman Schumer. Without objection, both items will be entered into the record.

[Cart entitled "World Wheat Supply and Ending Stocks" appears in the Submissions for the Record on page 53.]

[Cart entitled "World Corn Supply and Ending Stocks" appears in the Submissions for the Record on page 54.]

Senator Brownback. Thank you, Mr. Chairman.

In February/March, we had over $12 a bushel wheat prices, and, you know, I have a sidebar here: When you grow up in Kansas, this is the sort of thing you dream of. We never get these sorts of prices for a commodity.

I would point out that now that we're at the end of April, it's at $8, so you've knocked $4 off of that, because the crop that we're looking at now looks like it's going to be pretty good. So, I'm sorry, you know that your bread prices are up, but the amount of wheat in that loaf of bread isn't much. It may be a dime. We'll have some experts in to testify about this, so I'm afraid it's a lot of other people getting that price, but you're seeing a $4 drop per bushel in 3 months, in wheat prices because the incoming crop is looking a lot better, and that should help the ending stocks, which is what people will track.

We've got those problems. Now, they're exacerbated when people are not allowed to freely export, and I think that's what we're seeing, particularly in rice where you've got governments limiting the movement of rice. I was looking at the ending stocks on rice, and Mr. Chairman, I'd like to enter this into the record, as well.

Chairman Schumer. Without objection.[Cart entitled "World Rice Supply and Ending Stocks" appears in the Submissions for the Record on page 55.]

Senator Brownback. While they are lower, these are not the sort of things that should probably drive the rice prices as much as we are, so you're probably seeing more governments restricting the movement of rice, causing that on a near-term basis.

In wheat, we've had production problems last year, and those seem to be changing.

I would point out, as a Government policy, because people are saying, OK, the problem here is ethanol; that's the issue. We've diverted all these corn acres—or these wheat acres to ethanol.

Well, there isn't a real elasticity, between wheat and corn acres. You've got a different cropping pattern. You need more moisture for corn, and while there are some margins that you can shift around, primarily, a shift between soybean and corn acreage, and so you had a big corn increase this last year, but it doesn't really take from wheat acres.

It's some, but not a huge piece, and there's a positive with this. I would note to you, that, currently, ethanol gives us about 8 percent of our liquid fuel supplies in America, and that puts us at number five on the list of countries we get oil from.

I would note to you, as well, that there have been a couple of studies on this—a Merrill Lynch analyst estimates that oil and gasoline prices would be about 15 percent higher, or $4.14 a gallon at today's prices, if biofuel producers weren't increasing their output.

So, OK, we've shifted some commodities from this place to that, but then it also has a reducing impact on gasoline prices. Gasoline prices are way too high, but they would be higher without biofuels in the system, and I would note that.

Finally, Mr. Chairman—and I think this deserves, really, some more looking at—is the impact of the hedge funds and index funds on commodity prices. My sense is probably that with a declining dollar, that a number of these funds said,"where do we park our money," and they decided to park it in commodities as a way of holding it.

And I want to ask to enter into the record a Baron's cover story of March 31, 2008, looking at this phenomenon, not saying it's wholly there at all, but saying that it's clearly had some near-term impact on prices. I think that this is actually something worth looking at. Should we allow hedge funds and index funds to enter into the commodity markets to a degree over and above what we allow the individual to do?

[Report entitled "Commodities: Who's Behind the Boom?" appears in the Submissions for the Record on page 56.]

We limit individuals' positions in these markets, where we don't in these funds, and I think this is something, as a factor, that we really ought to be looking at.

So those issues, Mr. Chairman, I guess it would be fun to blame somebody in here for all of this, but I think you really need to look at these particular factors and then, please, let's not exacerbate it with Government policies, whether problems in the Farm Bill, or limiting of exports to the flow of commodities that's going to hurt and cause this to be worse.

I appreciate your holding the hearing, but I hope we can look at it factually.

Thank you, Mr. Chairman.

[The prepared statement of Senator Brownback appears in the Submissions for the Record on page 62.]

Chairman Schumer. Thank you. We now have a lot of Members here. I had offered each Member an opening statement, and I will stick by that, but we would ask each Member to do 3 minutes. The order, in order of appearance, is: Representative Cummings, Senator Sununu, Representative Brady, Senator Casey, Senator Klobuchar.

So, Representative Cummings.

OPENING STATEMENT OF HON. ELIJAH E. CUMMINGS, A U.S. REPRESENTATIVE FROM MARYLAND

Representative Cummings. Thank you very much, Mr. Chairman.

As I listened to my good friend, Senator Brownback, I just could not help but think—and I listened to you, Mr. Chairman, too—I could not help but think that I hope that we do not come to this hearing and have something that my mother, who is a former sharecropper, she would say we have motion, commotion, and motion, and no results—motion, commotion, emotion, and no results.

When you've got 11 percent of Americans now in what's termed a "marginal food state," that is, they are insecure with regard to having enough food, when you have got a 14 percent increase at food banks, and when, as the Chairman said, you have got Costco and other stores limiting the amount of food that can be purchased, rice in that instance, I want to just remind all of us that this is still America.

As I heard the Chairman talk about the difficulty that his family was having, I could not help but think about the neighborhood that I live in. I live in the inner-city of Baltimore where they do not have a combined income in many instances of $75,000, let alone one person making $175,000.

So if the Chairman is concerned—and rightfully so—you can imagine what the folks that are lining up at the food banks and the folks who are insecure, food insecure—meaning that they run out food before the end of the month—or they do not have enough food to nourish their children and their families properly, you can imagine what they must be going through.

We all know, and we will hear today all the problems. There are a lot of problems that have caused us to be here today. You know, severe weather problems throughout the country; greater demand for food across the world; gas prices—transportation costs of hauling this food, and we could go on and on.

I think the question is—and I hope that our panel as they tell us about the problems and explain to us about how food prices have increased at a faster pace than they have in 17 years—how do we help Americans?

Hello? How do we help them? Tomorrow. Tomorrow. People in my district will be going to the supermarket and their dollar is going to purchase much less than it did a year ago, and that is real.

At the same time, we know that throughout this country we are facing an obesity problem. And part of the problem with regard to obesity is people cannot get the kind of foods that they need, and sometimes cannot afford them. So we already had a problem. It is simply going to get worse.

Ladies and gentlemen, I have often said: If we can send people to the moon, we ought to be able to solve the problems here on earth.

And someone said a moment ago we need to bring Mr. Bernanke back so he can help us with this problem. Well whoever said that, if you were at the last hearing, I asked him about how to address the subprime issue, and he said he did not know.

So I do not know whether that is going to do us any good. So I am hoping that these experts who are here today will help us resolve this issue, because while we sit here, there are people who are worried about how they are going to feed themselves and their families.

Thank you.

Vice Chair Maloney [presiding]. I thank my colleague for his very moving statement, and we recognize Senator Sununu for 3 minutes.

OPENING STATEMENT OF HON. JOHN E. SUNUNU, A U.S. SENATOR FROM NEW HAMPSHIRE

Senator Sununu. Thank you, Madam Chairman.

Chairman Schumer did a fine job of laying out where we are seeing price increases. They are very real. It starts with an increase in energy costs, flows through the food chain of corn, bread, milk—just about everywhere you look in the supermarket. The impact on families that Congressman Cummings spoke to very eloquently is very real and very significant.

We see it today, in the information that was just released on inflation. Food and energy prices are going up much faster than core prices. The inflation puts pressure on family budgets. It displaces other spending that they might wish to do. It has a real effect on our economy.

It also has significant moral implications here at home. I met with the people from the New Hampshire Food Bank several weeks ago and talked to them about problems they see with donations, which was mentioned earlier. They also see the pressure on the families they are trying to help.

It has moral implications around the world. Whether you are dealing with the food crisis that is driven by war—as we have seen in Darfur, or food crises that are driven by catastrophic economic policies, such as land confiscations and price controls in Venezuela and Zimbabwe, the impact on the human condition around the world is tragic.

And here in the United States, given that we are the largest economy in the world, that we are such significant food producers, the policies that we enact and the effect that we have on global prices means that we play a real role in how people around the world get access to food nutrition that they so desperately need.

And I think we need to understand that. We cannot shy away from the fact that there are many Government policies that we have enacted here in the United States that have an impact in these areas.

It is important to hear from economists to understand how significant the impacts are. But if we are diverting 25 percent of our corn production to create fuel instead of using it for food, that has a very real impact on prices here at home and around the world.

You simply cannot deny that. We might argue about what the benefits of that diversion are, but it is going to have a real impact on supply and on prices of food. That increase in the price of corn, then feeds through the rest of the economic chain into beef prices, into chicken prices, into the price of processed food.

If we distort planting choices for corn or for soybeans, it has an impact on supply, availability, and price. If we restrict imports, as Senator Brownback discussed, it is going to have an impact on prices worldwide as markets become closed. If we protect our own markets we are going to have a negative effect because we are going to reduce efficiency, reduce the ability to move food from one place of the world to another to where it is most needed, or most valued, and contribute to local shortgaps.

We have just such restrictions on imports here in the United States. We have an ethanol tariff that has the effect of restricting imports of a product we desire and want to use domestically. By restricting that import we effect the price of the food source, whether it's corn or sugar.

We still have price restrictions and price controls. A minimum price is set on certain foods in our economy. And on the energy side, we still have very real restrictions on domestic energy production, an absolute refusal to enact policies that allow us to produce more energy here at home.

We have got to look at each one of these, listen to the panelists today, and better understand how Government policy is affecting what the families are paying at the checkout counter.

Thank you, Madam Chair.

Vice Chair Maloney. Thank you, Senator.

Senator Casey for 3 minutes.

OPENING STATEMENT OF HON. ROBERT P. CASEY, JR., A U.S. SENATOR FROM PENNSYLVANIA

Senator Casey. Madam Chairwoman, thank you very much for this opportunity.

I wanted to also thank Chairman Schumer for calling this hearing. As he and this Committee have often done over the last almost 18 months now since the beginning of 2007, having hearings on issues that pertain and relate to and impact the American family. This is certainly a good example of that.

I think it is very hard to comprehend. I think Congressman Cummings and others today have articulated the gravity of this problem. It is hard for me—and I am sure it is hard for most people in this room—to comprehend what it is like to go hungry. I cannot even imagine it. The pain and the trauma that it causes to one person, especially if they are vulnerable, if they happen to be an older citizen or a child, but no matter who they are, it is hard for us, I think, to even begin to understand that kind of pain. I know it is for me.

So I approach this problem with a great deal of ignorance in one sense because I do not know what it is like to go hungry. I think we have to try our best to understand what people are up against.

The numbers we have heard are staggering. Just the cost of food going up 4 percent in 1 year is, if not an all-time record, certainly a high one for the last 20 years. The percent of a low-income family's budget that they have to pay for food—by one estimate is 17 percent, and I am sure that number has gone way above that.

I think one of the most significant things I have seen in a long time is a report here from Second Harvest. I know we hear from them today, but they were kind enough to give State- and district-specific information about the crisis that we are facing.

Just to read you one line from this, which I just read a few moment ago for the first time which really struck me, talking about different parts of Pennsylvania, it says, and I quote: "A very small pantry based in the largest city in this particular region of our State served 8 households in July and last month served 42." I'm not sure what "last month" meant, whether it is February or March, but that is a 400 percent increase in one place in Pennsylvania just since July. It went from serving 23 to 153 individuals, in addition to what it meant to a household.

So that alone gives you a sense of it. And these are not just anecdotes. You can pick up any paper in the country and you are hearing over and over again, we have never seen it this bad in 20 years. The shelves are bare. We cannot keep up. The lines are too long. Over and over again, State after State, region after region.

So we have a lot to do on this issue. One of the heartening things about this hearing is that we will have some expertise at that table who will not only tell us what the problem is but will help us develop solutions.

Believe it or not, even though the Farm Bill has gotten a lot of negative publicity—and the real name of that bill is The Food and Energy Security Act, so it is about food security as the intent of that bill—almost 70 percent of that bill, in the 60's somewhere, is dedicated to nutrition.

So I think that bill goes a long way to addressing some of the more urgent nutrition challenges that we have in the country. So I look forward to learning from what our witnesses can tell us and being part of the solution.

But this has to be done in a bipartisan way, and we are grateful for the opportunity that Chairman Schumer gave us to examine this problem.

Vice Chair Maloney. Thank you. And Representative Brady.

OPENING STATEMENT OF HON. ROBERT A. BRADY, A U.S. REPRESENTATIVE FROM PENNSYLVANIA

Representative Brady. Thank you, Madam Chair.

I have two young boys, and this weekend one of their 5-year-old friends said, Mr. Brady, I can count to 100.

I said, Really? Show me.

He said, one, two, three, four, five, skip a few numbers, one hundred.

That's how he got there. As we examine the rising costs of food on middle-class families, I hope Congress does not skip a few numbers as we examine the issue, because I think we bear part of the blame for those high food prices our families are stuck with today.

We are diverting an amount of our food supply to biofuels. We need to take a hard look at it.

Fuel prices, the transportation of our agriculture commodities, the growing and developing of it through pesticides and others, that cost is coming from fuel.

I look at this Congress, what it has done this past year-and-a-half, and our first action was to allow individuals to sue OPEC. Well what does that accomplish?

Our second action was to promote longer-lasting light bulbs.

Our third action was to outsource America's energy supplies and use the Tax Code to punish U.S. companies for investing and producing here in America.

Our fourth action was to increase fuel standards for vehicles, which is good.

Our fifth action, and latest scheme, is to pound the table and threaten to withhold military planes unless others increase their importation of fuels to America. In other words, we're pounding the table insisting we become more dependent on foreign oil for our daily energy needs.

I think, even though world oil prices are set on the world market, the signal this Congress has sent is that we will do less, and we insist others do more. It is reflected by moving our oil and energy reserves into unstable governments. Whether it is Venezuela or Nigeria or Iran, we have sent a strong signal to the world market that we do not want to stabilize and lower these prices.

I am hopeful that this Congress at some point can come together to accelerate the use of nonfood sources of fuel in America.

We need to increase traditional supply of energy in America from the Arctic reserve to deep ocean to oil shale and coal to superclean liquids.

And then finally, we cannot ignore the speculative bubble in commodity prices. Just like the high tech bubble bursting in 2000, the housing bubble last year, we need to be very aware of it and paying close attention to its impact.

Mr. Chairman, I yield back.

Chairman Schumer [presiding]. Thank you, Congressman.

And last but certainly not least, Senator Klobuchar.

OPENING STATEMENT OF HON. AMY KLOBUCHAR, A U.S. SENATOR FROM MINNESOTA

Senator Klobuchar. Thank you very much, Mr. Chairman, for holding this hearing.

As you all know, I come from a farm State. We are third in the country for corn, and third in the country for ethanol. So I say that at the outset, but I would also like to say that I have seen firsthand the middle class families who are struggling in our State.

I have seen seniors in our State where some of them are so focused on not getting any Government help that they are embarrassed to go to the food shelves, and they take a bus to the next town so people do not know that they did it.

I spoke at a food shelf event a few weeks ago and it was predominantly seniors that were there giving $10, $20 that they had for years, and this food shelf is having a very hard time making it.

So those are the things that I have been seeing in my State. And when we hear from the witnesses today, some of the things I have been focusing on in terms of solutions are, first of all, of course this Farm Bill. I am one who believes we need some more reform in the Farm Bill, but I also believe that the nutrition part of it and the Food Stamp part of it is incredibly important and we have to look at that as part of a solution, a short-term solution for this crisis that we are seeing.

Second, that we look at the ethanol industry not just quickly and with a dismissive way and blame everything on ethanol, but instead talking about transitioning to cellulosic ethanol—switch grass, prairie grass, other parts other than corn that actually are higher in energy and will actually be better for the environment, and that we look at transitioning.

Because I am very concerned that if we just pull the rug out from an infant industry at a time when countries like Brazil have leapfrogged us in our energy independence—when I talk to our farmers, their input costs are in part oil. And we are so incredibly dependent on foreign oil, and Senator Schumer and I have been focused on pushing OPEC, and stopping putting oil in the Reserves right now when the price is so high, and doing some other things with speculation in the oil market, but I think we are at a precarious time here. We want to transition to a higher energy ethanol, and not just pull the rug out from under them.

The other part of this of course is really focusing our research on hybrid cars, electric cars. And as one of my colleagues mentioned, if we could put a man on the moon, when you think about all of the developments that came with that, that we should be able to do as well as Brazil when it comes to being energy independent.

And then finally I would like to hear, and one of the things I have heard talked a lot about in the farming community is just the increase that we have seen in hedge funds and money going into commodities that have inflated the price. What I've heard is that when the subprimes went bad, the money went out from that and into commodities. And that that has in part pushed up these prices.

And I am concerned about the fragile state when that money starts coming out of our farming community which could in fact make the prices even higher if we do not have a steady output of farm production.

So those are some of the solutions and ideas that are in my mind as we approach this, and I am looking forward to hearing from the witnesses. Thank you, very much.

Chairman Schumer. Thank you, Senator Klobuchar.

Now we are ready for our first witness who is Dr. Joseph Glauber. He is the Chief Economist of the U.S. Department of Agriculture.

I am going to ask the other panelists to wait until Dr. Glauber has finished his testimony, and then they can come up and join him and we will introduce them.

Dr. Joseph Glauber is the Chief Economist, as I mentioned, for the U.S. Department of Agriculture. As Chief Economist he is responsible for the Department's agricultural forecasts and projections, and for advising the Secretary of Agriculture on economic implications of alternative programs, regulations, and legislative proposals.

He is the author of numerous studies on crop insurance, disaster policy, and U.S. foreign policy, and has served as senior staff economist for agriculture and natural resources and trade at the President's Council of Economic Advisors, as well as an economist at the Economic Research Service, USDA.

Dr. Glauber, your entire statement will be read into the record. I would ask you to confine your testimony to 5 minutes, and then we will have the other witnesses.

Thank you, Dr. Glauber.

STATEMENT OF DR. JOSEPH GLAUBER, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Dr. Glauber. Thanks very much.

Mr. Chairman, Members of the Committee, thank you for the opportunity to discuss recent developments and the prospects for retail food prices.

In 2007 the Consumer Price Index for food in the U.S. increased 4 percent. This was the largest annual increase in retail food prices since 1990.

In 2008, USDA's Economic Research Service projects retail food prices will increase by 4 to 5 percent.

Several key factors are shaping the current situation, including domestic and global economic growth, the foreign exchange value of the dollar, global weather patterns, rising input costs for energy and labor, international export restrictions, and new product markets—particularly biofuels.

I will describe briefly recent developments in commodity markets, the effect on retail food prices, and the implications for food price inflation, family food expenditures, and domestic food assistance.

Higher commodity prices are contributing to the increase in food price inflation even though on average the farm value accounts for only about 20 cents of each dollar spent on food.

For highly processed foods such as cereal and bakery products, the farm component of the retail value is less, as processing costs account for a higher portion of the retail value.

In contrast, food products that undergo little processing prior to being consumed, such as eggs and fresh fruits and vegetables, the farm value accounts for a much larger share of the retail value.

The index of prices received by farmers for all products increased by 18 percent in 2007, as farm prices for several major crops—beef, milk, broilers, and eggs—either reached new record highs, or posted large annual gains.

Compared to 1 year ago, the index of prices received by farmers for all products was up 15 percent during the first quarter of 2008.

During the first quarter of 2008, the prices received for all crops were up 20 percent, reflecting a strong—reflecting continued strong prices for major crops.

Meanwhile, the prices for livestock and livestock products, while up 10 percent during the first quarter compared to a year ago, have moderated and are expected to moderate in the coming months as record large supplies of red meat and poultry have lowered farm prices for cattle and hogs.

Many factors have converged to increase commodity prices. Global economic growth, weather problems in some major grain-producing countries, and a weaker dollar have helped boost fiscal year 2008 U.S. agricultural exports and U.S. commodity prices.

In fiscal 2008, the value of U.S. agricultural exports is projected to reach a record $101 billion, up from last year's record of $81.9 billion.

Many exporting countries have put in place export restrictions in an effort to reduce domestic food price inflation. Export countries as diverse as Argentina, China, India, Russia, Ukraine, Kazakhstan, and Vietnam have placed additional taxes or restrictions on exports of grains, rice, oil seeds, and other products.

By reducing supplies available for world commerce, these actions only exacerbate the surge in global commodity prices. Higher food marketing transportation and processing costs are also contributing to increases in retail food prices.

In recent years the conversion of corn and soybean oil into biofuels has been an important factor shaping major crop markets.

The amount of corn converted in ethanol and soybean oil converted into biodiesel nearly doubled from 2005 to 2007. The growth in biofuels production has coincided with rising prices for corn, soybeans, soybean meal, and soybean oil.

While much of the increase in farm prices for corn and soybeans can be attributed to increased biofuel production, other factors have contributed as well to the sharp increase in prices.

The strengthened exports resulting from a weakened dollar and global economic growth have also boosted those prices.

I would add that the recent increase in corn and soybean prices appear to have little to do with the run-up in prices of wheat and rice prices. Rice and spring wheat plantings could have been affected by increasing corn and soybean prices, but weather problems, low stocks, and strong global demand likely have had a much greater impact on wheat and rice prices than increasing corn and soybean prices.

And it is unlikely that the retail prices for milk, meat, poultry, and eggs were greatly affected by higher corn and soybean prices in 2007. Other factors such as weather, low returns, strong demand have contributed to the increase in retail prices for these commodities.

I would just add that consumers spent nearly $950 billion, almost 10 percent of their disposal personal income, on food in 2006.

However, more important are the distributional aspects of higher food prices. While on average consumers may spend only 10 percent of their disposable income on food, families with less than $20,000 in income spend over 20 percent of their after-tax income on food. And I think you have a chart on that effect.*

Thus, a 4 percent increase in retail food prices would increase the share of income spent on food for families with less than $20,000 in income by about 1 percentage point.

Mr. Chairman, I go over in my statement the impacts on domestic food programs. I will skip that here. I would just say that as we look out, future market prices certainly suggest that grain and oil seed prices will remain high over the next few years.

The rapid expansion of the biofuel program, high input costs, and strong foreign demand will continue to play a major driving force in U.S. and world agriculture.

Yield growth and supply response both in the United States and abroad will help moderate prices in the long run, but for the near-term tight supplies will keep markets volatile with much attention being paid to the growing conditions worldwide.

Thank you, Mr. Chairman. That completes my statement.

[The prepared statement of Dr. Glauber appears in the Submissions for the Record on page 63.]

Chairman Schumer. Thank you for that informative testimony. Now we are going to ask our other witnesses to come forward as I introduce them. We will hear their testimony and do questions for everybody.

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*See chart entitled "Nearly All Families Spend Over 10% of Income on Food" in Submissions for the Record on page 47 and table entitled "Food Spending by Income Class, 2006" in the Submissions for the Record, page 70.

First we have George A. Braley. He is the senior vice president of Government Relations and Public Policy at America's Second Harvest, the Nation's largest charitable hunger relief organization. Prior to joining Second Harvest last September, Dr. Braley was the Associate Administrator of the Food and Nutrition Service at the Department of Agriculture. As the agency's senior executive, Dr. Braley along with the administrator had overall responsibility for the Nation's food assistance programs, including food stamps, child nutrition, WIC, and food distribution.

Tom Buis [pronunciation]?

Mr. Buis. "Bye-as."

Chairman Schumer. Buis, thank you, Mr. Buis. He is the president of the National Farmers Union. They represent a quarter of a million farm and ranch families. He has been with the organization since 1998 and was elected president in 2006. Prior to joining NFU, Mr. Buis served for 5 years as Senior Agriculture Policy Advisor to Senator Majority Leader Tom Daschle. Before moving to Washington, DC, in 1987, he was a full-time grain and livestock farmer in Putnam and Morgan Counties in west central Indiana with brothers Mike and Jeff, who continue to operate the family farm.

And finally at the other end of the food chain we have Mr. Richard—or almost at the other end, I guess your customers are at the other end—we have Richard Reinwald, the owner and co-founder of Reinwald's Bakery in Huntington, New York, on Long Island. Mr. Reinwald opened the bakery in 1988. He is a third-generation retail bakery owner, and he is also first vice president of the Retail Bakers of America, and has served on the RBA executive committee since 2004, and the board of directors since 1994.

He also served as president of the New York State Association of Manufacturing Retail Bakers, and the Nassau-Suffolk Retail Bakers Association. He works in the bakery with his wife of 30 years, Carol, and one of his three sons works in the business making his son the fourth generation in the family bakery.

Dr. Braley, Mr. Buis, Mr. Reinwald, your entire statements will be read into the record. Please go forward and we ask you to try and stay within the 5 minutes.

STATEMENT OF DR. GEORGE A. BRALEY, SENIOR VICE PRESIDENT OF GOVERNMENT RELATIONS AND PUBLIC POLICY, AMERICA'S SECOND HARVEST, WASHINGTON, DC

Dr. Braley. Thank you, Mr. Chairman.

Thank you, Mr. Chairman, and Members of the Joint Economic Committee. It is my pleasure to present testimony today on behalf of America's Second Harvest, The Nation's Food Bank Network.

Our network consists of 205 food banks serving all 50 States, Puerto Rico, and the District of Columbia. We reach over 50,000 charitable agencies who receive food from our food banks and provide food in turn to over 25 million Americans each year.

The lowest quintile on your chart* that you had earlier, Mr. Chairman, is the population that we tend to serve typically, those

* See chart entitled "Nearly All Families Spend Over 10% of Income on Food" in Submissions for the Record on page 47.

spending 32 percent of their disposable income on food. But we are seeing many more people from higher income families, or traditionally higher income families, who are seeking food assistance in our network.

Thank you for holding this important hearing, and for the opportunity to speak with you about three challenges facing our network.

Each one of these challenges would strain our ability to respond, but when taken together we are facing a true crisis. Our food banks are dealing with substantially reduced donations of Federal commodities, an increase in the number of people who need food because of the declining economy, and rapidly rising food prices that are seriously undermining our ability to serve the growing need.

Quite simply, Mr. Chairman, our network is overwhelmed. Let me briefly address each of these issues.

First, the reduced donations of Government food supplies. The last farm bill froze the level of donations for the Emergency Food Assistance Program that we're guaranteed at $140 million per year.

At that time the Congress, and we, expected that large surpluses of agricultural products would continue for the foreseeable future and enable us to meet the needs of hungry Americans by utilizing those surpluses.

As can be seen in the first chart in my testimony, this expectation was short-lived. In fiscal year 2003 the value of surplus donated commodities totaled $242 million. As farm prices began to rise, surplus food donations began to drop significantly, reaching a low of just $58.5 million last year.

This represents a drop in Federal commodity support of $184 million in just four short years. Our food banks desperately need the increased funding for emergency food assistance that is contained in the Farm Bill pending before the Congress.

TEFAP products constitute some of the most nutritious and popular items received by the low-income families that we serve. With unpredictable government donations due to rising farm prices and the erosion of those benefits in recent years due to inflation, it is imperative that the Congress include $250 million a year for TEFAP purchases, and that that amount be indexed to inflation.

Especially having heard Dr. Glauber's testimony about the likely continuation of high food price inflation, building indexing into that program is absolutely essential.

As the economy has faltered, the number of people seeking food assistance has risen. Participation trends in the food stamp program are a good barometer of Emergency Food Assistance Program demands because we see a lot of people at our food banks before they become eligible to receive food stamps.

Food stamp participation has been rising for several years, but in the past year alone 1.3 million more hungry Americans have sought and received assistance through the food stamp program.

We are expecting that program to reach record levels of participation over the next several months. Those same clients are often clients of our food banks before and during their participation in the food stamp program because they run out of benefits before they run out of month, and need to seek emergency food assistance from food panties and other Emergency Food Assistance Programs in their communities.

This leads to the third problem we are facing: Food price inflation and its effects on the need for emergency food assistance. One cannot really consider the impact of food price inflation alone without first recognizing that rising costs of other essentials are also contributing to economic distress.

When gasoline, heating, housing, and medical costs are also rising, families have less money to make up this shortfall.

It can also mean increasing their reliance on local emergency feeding agencies. We surveyed food banks represented by Members of this Committee, and we found that over 90 percent reported that the increase in demand they are witnessing is a direct result of the rise in food prices.

Let us not forget that in this economy it is not only poor and low-income Americans who are suffering. I saw a segment on CNN just a few days ago where a young mother who was making $70,000 lost her job, could not make her mortgage payments, had to move in with her child into her mother's home, and the segment was filmed at a food bank where she was seeking emergency food assistance and also trying to get referred to other services.

The second chart in my testimony shows that food price inflation was pretty flat for the decade from 1996 to 2006, but in the last 6 months alone food prices have gone up over 5.5 percent. This is the food prices based on the Thrifty Food Plan, which is used to adjust allotments. Food stamp allotments are adjusted every October annually based on June food prices. And yet food stamp participants will not receive an adjustment in their allotment for several months into the future.

What is needed to remedy this situation is a farm bill now to replace a significant portion of the support that has disappeared since the last farm bill.

We also need to quickly replenish our food banks to meet the needs of some 35 million Americans who face hunger. I want to thank Senator Casey for his support of a $100 million inclusion in the Emergency Supplemental, or the Stimulus Package for funding for emergency assistance.

Senator Casey. Thank you.

Dr. Braley. Mr. Chairman, I will conclude just with one comment from a food banker.

> We have not been able to continue to meet the demand. Our distribution has dropped some, doing well fund raising but costs are eating up our surpluses. We are not keeping up. We need to buy more food, but the money is not there. These are very discouraging times.

And one of our food banks in the survey wrote in also: "Please pass that Farm Bill."

And that is the message I would pass along to the Committee and the entire Congress. Thank you, sir.

Chairman Schumer. Thank you, Dr. Braley.

[The prepared statement of Dr. Braley appears in the Submissions for the Record on page 71.]

Chairman Schumer. We are getting close.

Mr. Buis.

STATEMENT OF MR. BUIS, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. Buis. Thank you, Mr. Chairman, and Members of the Committee for holding this hearing.

You know, as a former full-time farmer—I still own the farm land—I get a little frustrated whenever I read news stories, or new accounts and everyone seems to be wanting to blame the farmer for everything bad happening in America today and around the world. So I appreciate the opportunity to help set the record straight.

First of all, there is no doubt that higher food prices have a tremendous impact on people, low-income people and people in the middle class.

I have never met a farmer, though, that did not want to help address that problem. I think it is a shame that anyone goes to bed hungry, whether in the United States or around the world, because for most throughout recent history we over-produce the amount of food necessary.

We have problems with distribution. We have problems with political regimes around the world to make that assistance available. We have a lack of political will oftentimes to adequately fund programs to help those who truly need a helping hand.

You have to look at the cause of high food prices. This past couple of weeks with the announcement that Costco and Wall-Mart were shutting off purchases of rice it set off a media frenzy.

A lot of people immediately started pointing at farmers, pointing at corn/ethanol, even though rice production and corn production are not produced in the same areas by and large. And when you started looking at the facts, and slowly they dribbled out, but it's often hard to undo the damage and the image that is already out there, but those rice shortages and cutting them off were on two specialty rices, one from India and one from Thailand where they had shut off their exports.

They were being purchased not by families at 100 pounds each, but primarily small businesses that count on those wholesale clubs to purchase for their restaurants.

We had plenty of rice in this country. In fact, most of this problem occurred in California, and within California you have a lot of rice. Sometimes it's just what type of rice, and there are specialty crops that people prefer.

First of all, we see the higher prices as bigger macroeconomic problems:

$120 a barrel oil.

The declining value of the U.S. dollar, which hit 30-year lows.

Increased demand from developing economies around the world in India and China, and elsewhere as more people are adding extra meals to their diet.

And worldwide weather production problems, primarily in the wheat-growing regions. We had sort of a perfect storm last year where all the major wheat-producing areas of the world had bad weather, including here in the United States, Australia, Canada, Ukraine, and other places.

But the energy prices. And if you look at the real, real culprit here in the escalating food prices, it has to be the cost of energy.

I have a chart* here on which I show how small a percentage actually goes to the farmer and the production. It is about 20 percent, which means 80 percent of that food retail dollar occurs after it leaves the farm.

Food is produced all around this country and all around the world. It averages about 1500 miles before it gets to the retail establishment. You start doing the math at $4.25-a-gallon diesel fuel, and the tremendous transportation costs alone, and you will find that that is probably the primary culprit in the increases.

In fact, food price increases go up even when farm commodities are low. I would point out an example that was in a recent major newspaper that was lamenting the fact that bagels were going to—they were going to have to raise the price of bagels by 15 cents, from 95 cents to $1.10.

I talked to our folks back in North Dakota that produce this wheat that ultimately is turned into the flour to make bagels. A 4.2 ounce bagel, which is a big bagel, there's 7 cents worth of wheat in that bagel, that $1.15.

Do not blame the farmers is the point.

The other thing that I hear increasingly—and this has happened over the last year—people are blaming corn ethanol. First when we had the tortilla protests in Mexico. The only problem with that theory of blaming corn ethanol is number one, tortillas are made out of white corn, a different commodity than the yellow corn that we grow in the United States.

The second fallacy of it is that our trade agreements prevent us from exporting any more than 2 percent of Mexico's white corn needs. They had weather production problems in their white corn market from there and in South Africa another provider.

Last year right before the 4th of July, which is often one of the biggest beer-consuming holidays in America, the beer breweries came out and they blamed increased beer prices on ethanol.

Now being a corn farmer from Indiana, I know that corn goes into some drinking spirits—it's whiskey, it's not beer—beer is made from rice and barley, not corn.

I have also seen——

Chairman Schumer. Samples, Mr. Buis?

[Laughter.]

Mr. Buis. Pardon me?

Chairman Schumer. Do you have any samples we might——

Mr. Buis. We can get some real quick.

[Laughter.]

Mr. Buis. The other thing is, I have seen public officials that should know better blaming corn ethanol. Former President Bill Clinton was quoted as saying that they were having pasta riots in Italy because Americans were planting more corn.

Now pasta is made from durum wheat. Durum wheat is a specialty wheat only grown in the northern tier States where you have the microclimate—Minnesota and elsewhere. And to be bipartisan, unbiased—I was born that way—but to be bipartisan, Governor Perry, from Texas this past week—the biggest oil State in the Na-

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*See chart entitled "Farmer's Share of Retail Food Dollar" in the Submissions for the Record on page 86.

tion—recommended that ethanol was the problem of food price increases and livestock prices going up, and in fact, suggested we roll back the Renewable Fuels Mandate.

Nothing could be further from the truth. They need to look at the oil industry and what it is doing to America.

I have some recommendations that I will be very brief in making:

One, to address oil, quit filling the Strategic Oil Reserve. In fact, tap into it. That would benefit these small bakeries and food processors, consumers, and everyone.

Two, impose an oil excess profits tax and use that money to help the truly needy and hungry around the world.

Three, we have been advocating for a number of years in our organization for the creation of an international humanitarian food reserve. And so when we negotiate these trade agreements, we ought to get the countries that export and produce excess production to donate a part of that so that we do have something to tap into when we have these rare spikes in prices.

Thank you.

[The prepared statement of Mr. Buis appears in the Submissions for the Record on page 81.]

Chairman Schumer. Thank you, Mr. Buis.

Last but not least, Mr. Reinwald.

STATEMENT OF RICHARD REINWALD, OWNER AND CO-FOUNDER, REINWALD'S BAKERY, HUNTINGTON, NEW YORK

Mr. Reinwald. Thank you. I would like to thank the Joint Economic Committee for holding this hearing today on how high food prices are affecting American families.

I would especially like to thank my Senator from New York, Chairman Charles Schumer, and Vice Chair Carolyn Maloney for their leadership on this important issue.

My name is Richard Reinwald and I own Reinwald Bakery in Huntington, Long Island. I am first vice president of the Retail Bakers of America, and I am also affiliated with the American Bakers Association.

When we opened up Reinwald's Bakery in Huntington, we continued a family tradition that now spans over 75 years and 4 generations. Our bakery makes everything from pies and breads to fancy cookies, and of course, birthday and wedding cakes.

We are very proud to be part of people's lives in celebration and in everyday life. We feel we contribute to the lifestyle that makes Huntington a great place to live and work.

It is almost to the day when we opened up 20 years ago. The first few years were a constant struggle, and my wife and I did not know if we would make it. It was a great relief when the stress of that time was over.

Well now the stress is back. In the last 12 months we have seen explosive price increases on just about every commodity. This has created a perilous situation that threatens our ability to continue doing business in our community.

For example, a bag of bread flour that cost us $17 in 2006 cost us $52 today.

Semolina flour, the high durum, was $21 per 100. Today it is $75.50.

Soy oil and eggs have almost doubled in the last year. In a matter of weeks, our cost of goods sold soared to an all-time high. Our bowl cost—that is the cost of the dough coming out of the mixing machine—went from 22 cents per pound to 51 cents per pound for rye bread. In fact, rye flour used to make the best part of the deli rye sandwich, has not only doubled but is now in short supply, and we are beginning to import rye from Europe.

How does one respond to such increases?

In the past, Reinwald's Bakery has tried to couple small increases with a strategy that enabled us to sell our way out of difficult times. The classic business response to rising material costs has always been to increase prices, cut labor, eliminate waste, seek economies of scale, and pressure suppliers.

We have been forced to do all of these things, and until December of last year, that strategy seemed to be working. Then in January, the crisis went full circle. Flour prices again reached new highs, and wheat supplies plummeted to new record lows.

Today I ask myself what strategy will we use to survive this coming year? What will we do now?

In February, we were forced to institute dramatic price increases across the board. Prices on bread items in particular increased significantly. A one-pound loaf of rye that sold for $2.65 in April 2007, today cost $3.45.

In talking with bakers across the country, these kinds of increases are fairly common. For us the result of these increases has been a drop in volume of about 5 to 7 percent. While this may not sound like much, it is the difference between profit and loss, perhaps staying in business or closing the door.

Some of my colleagues have not fared so well. A friend of mine, a baker in Tampa, has seen a decrease in volume of 18 percent since October alone. I feel very fortunate to have a loyal customer base. They understand that if we didn't raise these prices we could not continue in business.

However in conversations with them, my customers are angry and frustrated. They ask me: What can I do? To respond to these record high prices I, along with many other wholesale and retail bakers from across the United States, came to Washington in March of this year to participate in the Band of Bakers March.

ABA, in conjunction with RBA and many other food industry associations and their members, met with Members of Congress, the USDA, and the White House to discuss what can be done in light of the current commodity crisis.

I understand that there are many elements that factor into today's high prices. We have heard this discussion: The worldwide demand, a weakened dollar, adverse weather events such as last year's draught in Australia.

Additionally though, the ethanol program which continues to subsidize food for fuel and other Government programs that pay farmers not to farm their land, have also led to the current food crisis which we find ourselves in today.

Why are we putting food in our gas tanks instead of our stomachs? As bakers we have no gripe with the farmer. They are trying to make a living just like everybody else. But it is difficult to explain to my customers that flour prices are increasing because farmers are choosing to grow crops for fuel and not for food; that the Government is incentivizing farmers through subsidies to grow corn for ethanol and not corn for feed and food uses.

Wheat acreage continues to dwindle because farmers can make more money growing Government-subsidized fuel than they can growing food. Even with current record prices for flour, the response to grow wheat is greatly diminished because of mandates for ethanol production.

The United States has a finite number of acres to use for farming, and fuel crops have taken over many acres that were previously used to grow food. Where will the land come from to grow more crops to meet new ethanol mandates?

U.S. crop land is already stretched to the limit. Now is the time for Congress to act on this issue. I encourage Members of this Committee to re-evaluate the ethanol program and to take necessary actions.

Before closing, I would like to mention an outcome that is incidental, but no less important. Often overlooked is the impact that price increases have on donations to food banks. We sell our fresh bread for 1 day only, and then we happily give it away to our local food pantries.

I know that I am not alone in this practice, as many other bakeries across the country do the same. With the advent of increased costs, we are tightening our inventory, and we have been forced to bake closer to anticipated demand.

The food pantry that has come to rely on our production overruns is now short of food. This comes at a time when more and more people need the relief that food pantries provide to help them get through these tough times.

In closing, I would again like to thank this Committee, Chairman Schumer, Vice Chairman Maloney, for taking time today to discuss this important issue. To reiterate, food prices, including baked goods, are reaching all-time highs at a time when the economy is already near its breaking point.

Consumers cannot afford to continue to pay record high prices for basic foodstuffs. I encourage this Committee to revisit the ethanol program and ensure that there is proper balance between food for American families and alternative fuels.

In so doing, all Americans might enjoy a wholesome diet and still live within a reasonable budget. I think we can all agree that it would be a sad day for families to be forced to celebrate without a birthday cake.

[The prepared statement of Mr. Reinwald appears in the Submissions for the Record on page 87.]

Chairman Schumer. Thank you, Mr. Reinwald. I want to thank all the witnesses. It shows you the complexity of this issue with the different points of view, but the real sharpness of this issue is really with us now and it is something that has not been explored. We have to understand the problem before we can give answers.

Just quickly to follow with you, Mr. Reinwald, just briefly do you think you will be forced to reduce hours or create further layoffs on your staff? Are you going to be forced to continue to raise prices? And are you worried you might ultimately go out of business?

Mr. Reinwald. Fortunately I own the real estate, so I have been—my wife will tell me I am behind on the rent——

Chairman Schumer. Got it.

Mr. Reinwald. And I am. We are looking to maybe cut down hours and also to cut a day off scheduling so that bread would only be available for 5 days instead of the current 6.

Chairman Schumer. OK. And what are your customers saying when they come into your bakery?

Mr. Reinwald. The customers, I have to say, are very frustrated and to a person they were very excited and glad that this Committee is holding the hearing today. Basically they say go down there and give 'em hell.

Chairman Schumer. OK, thank you, Mr. Reinwald.

To Dr. Glauber, tell us—I mean there are a number of different causes here. I do not think there is just one: increases in world demand, increases in fuel and diesel costs, poor crop production due to weather, increased domestic demand for corn due to ethanol, and speculation in commodity markets by hedge funds.

In your opinion, which of these one or two factors has played the most significant role in driving up food costs? If you had to pick say two of those five?

Dr. Glauber. OK, I guess I would start by saying it depends on the commodity. Understand that if we are looking at something like say a CPI for food that that largely depends on the weight of that commodity in the overall food basket.

So it is easier to talk about——

Chairman Schumer. Well let's talk about say wheat.

Dr. Glauber. OK, wheat——

Chairman Schumer [continuing]. Or flour.

Dr. Glauber. I think wheat I would lay most of the blame at world weather over the last 2 years. We have had devastating drought in Australia. Australia is a major wheat producer. For 2 years running. And unfortunately this last year not only did we have poor crop in Australia, but we also had a very poor crop in Canada.

We had a poor crop in Europe and a poor crop in the Ukraine. That really shot up prices.

Chairman Schumer. So that should make things get better?

Dr. Glauber. Well, yes, I think——

Chairman Schumer. If the weather gets better.

Dr. Glauber. The weather should get better. The other thing is that the world is responding to higher prices. It is unfortunate in one sense—it's probably good that it did not occur, the price run-up did not occur back in the fall, but if it had—or in the summer—I think we would have seen a lot more winter wheat planted here in the United States.

We are going to see an increase in the United States this year, to 64 million acres planted, which is an increase over last year.

Chairman Schumer. What about eggs? What would be the number one reason for the increase, dramatic increase in the price of eggs?

Dr. Glauber. Eggs—we're expecting, you know eggs, as I think I mentioned in the testimony, egg retail prices are pretty much, if you look at the relative value of the farm value, they're pretty high.

Chairman Schumer. Yes.

Dr. Glauber. You do have some costs, some transportation; you do have some keeping them cool, all that. So it is really a production issue.

We had a problem with layers that manifested itself in a very rapid increase, I think some—just looking at the chart,* almost a 30 percent increase last year in egg prices. We are expecting that to moderate this year.

Chairman Schumer. But why did it go up so much? What is the reason?

Dr. Glauber. The problem with layers. We had, you know, the chickens that lay the eggs.

Chairman Schumer. Oh, "layers"? Got it.

Dr. Glauber. Yes——

Chairman Schumer. Mr. Reinwald thinks when you say that that it is a cake.

[Laughter.]

Dr. Glauber. Yes, that's true, and I should be careful. It was all new to me 20 years ago.

Chairman Schumer. So what were the problems with the layers?

Dr. Glauber. Well, we had a reduction in numbers.

Chairman Schumer. And why?

Dr. Glauber. Well a variety of reasons. There were some healthy reasons, if I'm not mistaken. There's also—I'm sorry, I don't know the full thing——

Chairman Schumer. OK.

Dr. Glauber. I can certainly answer that in a written question.

Chairman Schumer. And how much would you attribute the price in corn increase in things that use corn to the ethanol, to the move to ethanol required by law 2 or 3 years ago?

Dr. Glauber. Very little. The prices—these were really production effects that hit a year ago when corn prices were just beginning to creep up. You know, and since then we're seeing the production increasing on eggs with higher prices.

Chairman Schumer. No, I'm asking corn now.

Dr. Glauber. No, I understand. There is no denial that livestock and livestock product producers have been affected by very tight margins caused by higher feed costs. There is no question about that.

I am not meaning to minimize that. And I think in particular as we look forward with these high feed costs that you could see potential problems on expansion that could begin to hit that industry.

Chairman Schumer. Thank you.

Dr. Glauber. I was just passed a note by one of my helpful assistants who mentions the fact that a lot more, instead of laying eggs, a lot more went into the broiler market and actually sold as meat because of the increased trade overseas.

Chairman Schumer. Right. OK——

Mr. Reinwald. Senator, could I bring a street view into this? I was in the State of Minnesota several weeks back and I had some

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*See chart entitled "Milk and Egg Prices are Soaring Past Inflation" in the Submissions for the Record on page 46.

conversations with farmers from Minnesota, and also North Dakota. And I heard today about the Semolina flour mostly being grown in the North Dakota and Minnesota region, and that is true.

And the anecdotal evidence that I heard from these farmers is that the corn has been GMO, genetically modified, so that they can now grow the corn crop further north, and a lot of the wheat farmers that used to grow Semolina in Minnesota and in North Dakota are now moving to corn.

And there is a great advantage to corn. I'm sure the Department of Agriculture will notice this. It's that corn yields 160 bushels per acre; wheat yields 40.

Chairman Schumer. Thank you.

Mr. Reinwald. Do the math.

Chairman Schumer. And we will let Senator Klobuchar, when it is her turn, talk about what is happening in Minnesota, too.

Senator Klobuchar. Thank you, Mr. Chairman.

Chairman Schumer. My time has expired. I am going to have to go. They called an emergency leadership meeting just an hour ago, and I have no control over the time, so I want to apologize to my colleagues.

I am going to have Congresswoman Maloney continue chairing the hearing, but thank you all. This was excellent testimony, and it is going to cause a lot of food for thought. Thanks.

Vice Chair Maloney [presiding]. Thank you, Mr. Chairman. I recognize Congressman Brady for 5 minutes.

Representative Brady. Thank you, Madam Chair.

I hesitate to ask this question of Dr. Glauber. I want to thank you for all the witnesses being here today, because you all bring a different perspective to the table.

You cited a number of areas that contribute to the price of food being what it is today, a number of them international areas.

I hesitate to ask this question because I think at times this country seems anxious to talk itself into recessions, for example, so I hate to talk ourselves into an inflationary spiral, but numbers show food prices have increased 83 percent over the last 3 years worldwide.

Last month's numbers show food prices going up about six times faster than core prices. Those are the prices of food and fuel in it.

You know, some people believe that increase in prices and commodities eventually, once they are in the pipeline, lead to higher costs down the road, even though they may be a small amount of the initial cost.

From an economic standpoint, is the inflation that is already in the commodity pipeline, does that lead us to expect future increases in inflation?

Dr. Glauber. No, I would say not necessarily. I mean, understand with commodity markets it can take a while for prices to return, to decline.

Stocks are very, very low if we're looking forward this year; there's going to be a lot of attention on the weather. If we were to have a poor crop, that would exacerbate a currently very tight situation.

A lot depends on energy costs. If energy costs were to increase further, of course you would have those things.

But generally—and as we look out, and we look at crops returning more to normal, or stock levels to build again, prices should come down.

Now will they come down all the way to where they were when they were at very low levels in the late 1990s? We do not think so. But they will come off, significantly off where we are currently seeing them over the mid to longer term, and I think our projections are that CPI numbers will return—for food, that is—will return more to the 2 to 2.5 percent range over the mid to longer term.

The problem is the short run. We do have a very short situation. We will see this play out in the livestock market because herd size we are anticipating will shrink. Because of that, those prices for those commodities will increase a bit.

Representative Brady. So you're saying if we were to continue unabated, eventually yes. But you see other factors changing those numbers for different reason?

Dr. Glauber. I see mitigation. I think if we have normal harvest size crops that we will see these numbers over the next—I think CPI should remain higher than it's been than the 2 to 2.5 percent over the next couple of years, but they will come down to we're expecting the mid to longer term with CPI's in the range for food that is in the 2 to 2.5 percent range.

Representative Brady. In the biofuels issue—in the minute-and-a-half remaining—in the biofuels issue, I actually, even though I come from Texas, believe we're making a huge mistake in not encouraging both traditional energy and renewables at the same time.

I think biofuels can be part of our diverse portfolio for energy, but I grow increasingly worried about the amount of food used for fuel.

The numbers we see and are given here on this Committee say that 30 percent of our corn crop was diverted for fuel, or is being diverted for fuel production instead of food.

Are those numbers correct? Give us your perspective.

Dr. Glauber. There is no question the corn going into ethanol has increased dramatically over the last 3 or 4 years, particularly over the last 2 years, and in fact because of the increased capacity, the number of ethanol plants being built that we've seen over the last year and are projected over the next year, we're seeing a very rapid run-up where this current year we have about 3.1 billion bushels of corn going into ethanol production.

Next year we expect to be about 4.1. But it levels off after that. We have also seen a lot more land go into corn. And so I think that where we have seen this rapid run-up, we have been in a very tight situation with corn stocks.

Over time, as we expect yields to trend upwards, that we will see again stock levels increase on corn. The ethanol production, for corn at least, should level off and the prices should certainly come down from the current levels.

Representative Brady. Thank you, Madam Chairman.

Vice Chair Maloney. Thank you. The Chair recognizes herself.

I would like to ask Mr. Buis and Dr. Glauber. I've read that independent farmers are seeing very little in the way of higher profits, but just yesterday The Wall Street Journal noted that big agriculture is seeing record profits, as well as big oil is seeing record profits.

For example, they noted that the grain processing giant Archer Daniels said its fiscal third quarter profits jumped an astonishing 42 percent. And Monsanto saw its profits in the last quarter more than double.

So my question is: Are you seeing signs of price gouging by big agriculture? Yes, Mr. Buis.

Mr. Buis. Well if you talk to a farmer, the biggest concern you are going to hear about is the higher input costs that they are facing.

Input costs have almost tripled.

Fertilizer has gone through the roof.

Equipment has gone through the roof.

Fuel has gone through the roof. Seed.

Everything they use for inputs has had this big price run-up.

And as you see from the charts,* the difference between the 7 we receive for that durum wheat and what he has to pay as a baker is huge. And I think there are a lot of people in between the farm and the table, the consumer, that are using this opportunity to raise prices along the way and then turn around and blame the farmer.

You know, the other thing you have to keep in mind, is this big run-up in prices, because of speculation, doesn't mean the farmer is getting it. Right now, what we're facing is that most farmers cannot forward-contract their grain for sale, their commodities, past harvest, which means they don't have it right now.

You can't sell what you don't have, and the one tool that we've always counted on to be able to market it into the future and capture, hopefully, a higher price and a profitable price, has been eliminated.

So there's a big concern in farm country, that we're further out on the limb than we've ever been on costs, input costs, and have no capability to capture these higher prices, which may or may not be here in a few months.

Vice Chair Maloney. Thank you. Dr. Glauber.

Dr. Glauber. I would agree with a lot of what Tom just said, particularly in the sense of increased input costs. You look at, say, something like fertilizer, they're up, for some component of fertilizer, up 100 percent; on average, our estimate shows some 67 percent.

There's no question that livestock producers are really feeling a squeeze of high input costs due to feed.

That said, farm income, net cash income that we measure, in aggregate, across the entire agriculture, for 2008 is forecast at $96 billion, almost $97 billion, compared to about $88 billion, so we are up in the aggregate.

Vice Chair Maloney. I'd like to continue asking Mr. Buis and Dr. Glauber, according to the New York Times, Commodity Exchange Traded Funds, which was developed barely 4 years ago, have grown nearly sevenfold since 2005. To what extent are higher

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*See chart entitled "Farmer's Share of Retail Food Dollar" in the Submissions for the Record on page 86.

food prices being driven by speculation in commodity markets? Mr. Buis.

Mr. Buis. I appreciate that question, because this has been a big concern. The Commodity Futures Trading Commission held a hearing less than 2 weeks ago to address some of these concerns.

But it's something we've been hearing in farm country for quite some time, is that we can't capture this price. As I mentioned before, the futures market, which farmers have counted on forever, has been eliminated.

Part of the reason is because the speculation into the marketplace has caused the market to explode. In the case of wheat, they reach contract limits, day after day.

Well, when you do that, that country elevator or that farmer has to pay a margin call and one country elevator I talked about, that had bought wheat for Fall delivery, had a million bushels, and the price of wheat was going up 60 cents a day.

Nothing was changing in the fundamentals at that point. There was a lot of speculation export markets coming in. That was costing him $600,000 a day to meet the margin calls, and as a result, he hit his credit limits.

Hitting those credit limits, forced him to cutoff buying that grain from the farmer. So we raised these concerns, and we were told that nothing out of the ordinary was wrong except they could not explain cotton.

In cotton, we have a huge surplus of cotton. We had a great crop. It's all over the country; you can't hardly give it away.

And cotton prices spiked upon speculation. Now, when they went up, every farmer was hoping that they would be able to get that price, but they weren't able to.

There's explanations that need to be made. I think it's similar to some of the other bubbles we've seen recently, and it could be the biggest train wreck we ever see.

Vice Chair Maloney. Thank you. My time has expired. Congressman Cummings.

Representative Cummings. Thank you very much, Madam Chair. Dr. Glauber, let me ask you this: There have been some proposals to cut the gas tax for a few months. Are you familiar with that?

Dr. Glauber. Yes, I've read the papers.

Representative Cummings. OK, this is not heavy. So, I'm just wondering what your thoughts were with regard to how that might affect the price of food.

Dr. Glauber. I think it would have a small effect in the near term. I mean, over a longer run if the price of gasoline, regardless if it were to come down, vis a vis just the price of oil coming down or by way of taxes, that could have an effect, but a very short-run thing, I don't think, would have much effect.

Representative Cummings. And, you know, I mean, what do you—what—do you see solutions to these problems? I mean, can you—do you have a list of things you'd like to see us do?

Dr. Glauber. Well, I think there's two ways to look at this, and one is to look at the short-run issue, and I think, in particular, some of the ones that George has mentioned here, in terms of the Food Bank problems and those sorts of issues of shortfalls there.

Some of these programs are just targeted with a certain amount—he mentioned this temporary emergency food assistance program at $140 million, is set at that amount, so that if the cost of food goes up, that's less that you can—it's a set amount of money you have.

There are other programs that are indexed to the CPI, things like food stamps and the child nutrition programs, which have indexing built into them. Other issues, like WIC, Women Infants and Children Program, have a package quantity base, which also, if the price goes up, of the commodities, then the overall program costs go up, but it is an appropriated program, so there, you know, that can be dealt with through annual appropriations.

We've tried to make some adjustments at USDA by transferring money from the food stamps emergency fund to fund WIC.

Those are short-run issues. The longer run, I think—you know, I think things like—I don't see this thing persisting long-run unless there's some serious weather shortfalls worldwide.

Representative Cummings. Well, let's stop right there.

Dr. Glauber. OK.

Representative Cummings. You know, one of the things about sitting on this Committee—and I listened to some of the experts on other issues, and a lot of them say, just wait it out, on different issues—just wait it out; it's going to be all right, things will get better.

And you're not saying that, are you?

Dr. Glauber. I'm saying, orient it toward those who need it most, and that's why I mentioned the shorter——

Representative Cummings. Well, you know, it's interesting, and then I'm going to shut up and let you talk, but yesterday I was talking to my staff, and I said, you know, I do represent **a lot poor** people, but I said, you know what? I told my staff, get me—help me get solutions for **the most of the people** in my District who are middle class.

I mean I care about the poor; don't get me wrong; I really do, Mr. Braley. I live in the inner, inner, inner city. I'm probably one of the few Congressmen that live in the inner, inner city.

But I also care about those folks who are probably, I'd say, 80 percent of my District, maybe 70, and I'm just wondering, OK, talk about them, too. They're complaining about these food prices, too, now.

I don't know what the Chairman, he and his wife make, but I do know what we make, and he makes more than the average middle class person, probably. And I'm just saying, he's complaining.

So, what about them? I mean, how do we help them. You talked about WIC.

Dr. Glauber. I don't mean to minimize it.

Representative Cummings. And I'm not saying you are. I just want to make sure I'm clear. You know, as I tell all of the experts that come in here, you're the ones who—you know, this is what you do.

Dr. Glauber. Right.

Representative Cummings. And this is—you're the experts. And so we look to you for policy solutions and suggestions. I have a lot of respect for that. That's why I'm asking you.

Dr. Glauber. Right. The only thing I think is important here is, while we have seen very, very low food price inflation, we've been **used** to that for a long time, we've had periods—not too distant—that we saw very high food price inflation.

In the late 1970s, for example, we had food price inflation over 10 percent for a year. But I'm not saying that that's any reason to think that 5 percent shouldn't be worried about. It is a small portion of household income for most families.

For a lot of families, it's not, and I think that's—it's important to recognize the problems that that might entail for families, particularly with low income.

But I think that my own view is that this will moderate, that we will see food price inflation decline, and it should start happening over the next year or so.

I don't think that it calls for dramatic changes in policies for the average consumer. I think it will take care of itself through weather and through just as things return to normal here.

Vice Chair Maloney. The gentleman's time has expired.

Representative Cummings. Thank you.

Vice Chair Maloney. Senator Casey, for 5 minutes.

Senator Casey. Thank you very much. I wanted to first of all commend the witnesses for your testimony today and your experience that you bring to bear on these important questions we're examining.

One of the areas of inquiry that I wanted to start with is this debate we're having, which has surfaced rather recently about ethanol and the impact of Federal Government policies as it relates to ethanol and how that impacts food prices.

I guess I have a fundamental question, which I know you've addressed, either directly or indirectly, in your testimony and through some of the other questions, but just very simply, if the Federal Government reversed course and stopped requiring the use of biofuels and kind of reversed the strategy that we've been playing out the last couple of years, would that have a measurable impact in decreasing food prices, or are there other factors at work here that would render that kind of decrease rather negligible?

I'd address it to anyone, but I guess, in particular, to you, doctor, as well as Mr. Buis.

Dr. Glauber. If you don't mind, let me take a quick shot. In terms of reverse, I guess there—the first question is, what would that be?

If its elimination of, say, the—a rollback of the energy—2007 Energy Act, in terms of the renewable fuel standards, I still think you'd see a lot of ethanol being produced, largely because right now, it's still profitable for corn to be made into ethanol. We see a lot of plants coming online, that are still intending to produce.

We don't see the mandate as being—the levels as really affecting ethanol production, certainly not in the near term.

If you're talking about rolling back the blender credit and eliminating the blender credit, well that's a different issue, and I think we do—we have seen some analyses of that, that would suggest—I know the Food Agricultural Policy Research Institute did a study at the time the Energy Bill was passed, that suggested that corn prices could drop by about 10 percent.

USDA has done similar analyses that suggest similar magnitude of results of corn prices falling. Now that, I think, is—those analyses were done with assumption of corn prices in the range of $3 to $3.50, and of course, they are substantially higher than that.

I presume that the effect would be higher with—in a very tight demand situation, but again——

Senator Casey. The effect would be higher? Do you mean the price decrease?

Dr. Glauber. The price decrease would be somewhat. If the baseline were $5 prices of corn, then I think we'd see a bigger drop than just perhaps 10 percent.

But I don't see a huge drop to $2 or anything like that. I think that one is even without the blender credit; some plants probably could continue to produce ethanol profitably.

Senator Casey. Well, anything that you could add to the record to supplement that would be helpful,

Dr. Glauber. OK, I'd be happy to.*

Senator Casey. Because what you're hearing on television and in the discussions around the country now is a shorthand—that we have high food prices, and what's the cause? Well, let's point the finger at ethanol, and I think it's been, frankly, kind of the depth of the research, or the depth of the analysis has been pretty shallow so far.

But Tom, do you have anything on that?

Mr. Buis. Thank you, Senator, I do. One, I think people have to put in perspective what yellow corn is used for. Half of it goes for livestock feed. We have about 22 to 23 percent that went for energy.

About 20 percent went for exports, and only about 8 or 9 percent, I think, goes actually for food consumption. And this is not sweet corn we're talking about; it's not canned yellow corn we're talking about.

And the primary food use, if I'm sure of myself, it's actually sweetener, fructose that's used in sodas. So, to make that equation that corn is taking food out of people's mouths, or off the tables, is a real stretch.

And for those who use anecdotal reports that all this wheat acreage is being converted to corn, that's not correct, either. We've seen a shift of wheat acreage into corn and soybeans and other high-value commodities, not because of corn ethanol, but this has been occurring over the last 20 years, as new hybrids have been developed, but also because the price or the ability to make a profit from wheat—because of low prices—has led farmers to search for alternatives.

You have to get a price somehow, and for some reason, there are a lot of people that seem to think profits should be a dirty word only for America's farmers.

If you have that opportunity to produce, farmers will produce. Corn is probably the classic recent example.

Two years ago, prices started to go up, and before last year's crop, farmers planted the largest crop they had since 1944. We produced on a yield basis—a total yield basis—more corn than the pre-

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*Information was unavailable at time of publication.

vious record by 2.7 billion bushels, and out of that 2.7 billion extra bushels of corn last year, only about 600 million of that extra production went into ethanol.

It makes for easy rhetoric, but you know, ethanol has been under attack by the oil industry for 30 years, and we don't expect them to quit until they totally eliminate the competition.

I appreciate the question.

Senator Casey. I'm out of time.

Vice Chair Maloney. Thank you, your time has expired. Thank you. Senator Klobuchar.

Senator Klobuchar. Thank you. This has been very interesting testimony. Mr. Reinwald, I'd be remiss not to say that my best friend since I was 5 years old was Amy Sherber who owns Amy's Breads in Manhattan, and she has sent me several e-mails about the wheat prices, so your group is doing your job.

But what I wanted to ask you, as we look at this wheat issue that Mr. Reinwald raised, in Minnesota and other States, Dr. Glauber, could you talk, just in general—I think one of the things that I didn't bring up in my opening statement was this export market. I was just thinking of some of the soybean producers that came in, and they said their biggest market right now—outside of the United States—is China for fish food or aquaculture—yes, fish food for China, and that we're just seeing more and more demand for our products, as you pointed out, with the weak dollar and other things.

Dr. Glauber. That's exactly right. We've seen very strong demand for protein meal. For meat, in general, particularly economies in Asia increased, and we've seen an increase in the middle class in Asia. The diet shifts toward meat, and because of that, people are either importing more meat products or they're importing the feed to feed the animals.

As I think I mentioned, or someone mentioned, we saw corn exports go to 2.5 billion bushels this year, a very large increase, much larger than we had anticipated when we were doing forecasts at the beginning of the year. Soybean exports have just—if you look at protein demand for soybeans——

Senator Klobuchar. What do you think of Mr. Buis's idea about this food reserve idea like we have with oil, as you look at these trade agreements and that some of our people are getting affected by this, and hurt by the prices?

Dr. Glauber. I think Tom and I agree on a lot of things, but we'll probably disagree on this one.

I don't think it's a good idea, I think largely because these reserves—our experience, at least here in this country, is that we tend to accumulate a lot of grain, and it doesn't get released on the market—hangs over the market—and when it comes out, it doesn't do particularly a lot of good.

We have a small reserve here, I might add, the Bill Emerson Trust Reserve that we just released a little bit of wheat out onto the market, but it's just tough to coordinate that worldwide, and we've had—historically, we've had commodity agreements worldwide, and they just haven't worked particularly well.

Senator Klobuchar. And then Mr. Buis, I just had one last thing that I discussed with this cellulosic ethanol. I know that some people say it's so far away, but yet there's plants right now in Canada, and we have a legitimate concern in Minnesota with some of the price of corn, with the turkey producers. As you know, we're number one in the country with turkey producers. I don't know if you knew that, Senator Casey, as well as the pork producers and others.

So, could you talk a little bit about your knowledge of what's going on with cellulosic? We have some incentives in the Farm Bill. By the way, Mr. Braley, I'm not going to get to you, but thank you for talking about the nutrition programs in the Farm Bill.

Mr. Buis. Absolutely, Senator. Corn ethanol is sort of the first generation for renewable energy. I don't think any of us—there's not a corn farmer in America, that would say that that's going to be the ultimate answer. It's part of a whole menu of items.

But it's paved the way, because, number one, corn is easily grown, stored, transported. We figured out how to extract the sugar out of it long ago. It's been 30 years in the making, but it's paving the way for that next generation.

And cellulosic ethanol is where we're going to get the big numbers, in order to significantly reduce our oil imports. If we gave up on corn ethanol today, it would send the wrong signal to those in the cellulosic industry.

Senator Klobuchar. Could you describe for those people who aren't on the Ag Committee, just when you talk about cellulosic, the kinds of things you're talking about?

Mr. Buis. Absolutely. You're talking about extracting the sugar and converting it to energy from crops such as switchgrass, corn stover. I suppose you could even get into biomass.

Senator Klobuchar. Would that be the prairie grass, switchgrass? I mean, we have a lot of our conservation groups interested in this, because, if it's done the right way, it can create habitat.

Mr. Buis. Absolutely.

Senator Klobuchar. One of the things I've heard—and I'm sure Mr. Reinwald's ears are going up—would be, would this supplant, then more wheat? What I have understood is that the price, the way the prices work, it would most likely be grown on marginal farmland, highway medians, whatever. Could you talk about that issue?

Mr. Buis. Well, first of all, in order to get more wheat, you're going to have to offer a price attractive enough to have farmers produce it. They can't continue to produce at a loss. And that's been happening in wheat country for quite some time.

The income has been made up by Government transition payments, or incentives or subsidies, but at some point the industry is going to have to realize that if they want more wheat, they're going to have to pay the farmers to grow it.

But cellulosic ethanol would compete primarily on grazing acres around the country. I don't know if it will compete with wheat, unless wheat drops back to $4 a bushel, and then it probably would. We don't have a market yet for cellulosic. We don't have the technology worked out. It's not—it's energy-efficient, but it's not economically efficient.

Senator Klobuchar. But there are some plants in Canada. Part of my frustration is that I think we do need to make this transition, and that until this Congress has come in and has been pushing some of these issues, we basically have been dormant with a lot of the policy on energy and moving to the next and getting those hybrid cars moving as fast as we can and things like that.

And so how close do you think we are to getting there with cellulosic?

Mr. Buis. I think it's a few years away yet, but one of the recent developments in the Farm Bill development that, as you know, has been going on for way too long, is a reduction in the tax credit for ethanol production, the blender's credit which will be put into the advancement for cellulosic, an additional incentive. I think that's necessary to get the industry started.

Senator Klobuchar. I see the Vice Chair is getting her gavel ready.

Vice Chair Maloney. Your time has expired.

Senator Klobuchar. Thank you very much.

Mr. Buis. Thank you.

Vice Chair Maloney. Mr. Braley, the Food Bank for New York City and City Harvest serve over 300,000 people per month, many of whom are the working poor who have to choose between food and utilities, between housing or healthcare, each month. And you noted in your testimony that there is a large gap between the number of people you serve who receive food stamps and the number who are eligible, but do not receive food stamps or benefits of any kind. How do you fix this gap?

Dr. Braley. Thank you, Madam Chair. That was——

Vice Chair Maloney. Thank you for your testimony.

Dr. Braley. About 65 percent of the people eligible for food stamps, currently receive benefits under the program, so that leaves 35 percent who do not. They tend to be seniors, they tend to be recent immigrants, they tend to be the working poor, so there's an extensive effort on our part to try to get more involved in outreach to those communities.

We feel that food banks and their agencies see a lot of those people and have contact with them, but we want to increase the level of support we give them to join the food stamp program—everything from referrals to application assistance, to providing a short-term initial benefit so that they can get into the program.

But that is a huge problem. The percent of people served has risen slightly in the last few years, but there are still lots of people out there who could benefit from food stamps, but don't go through the process to become eligible.

Vice Chair Maloney. Thank you. I would say that all of the panelists, the Members of Congress really jointly believe we need to bring relief to families who are feeling the squeeze of higher food prices, and I'd like each of you to comment on what you think are the most important policies Congress can pursue to bring down the price of food for American families. I'd like to begin with Mr. Reinwald and go toM Dr. Buis down there.

What policies, specifically do you think we should pursue to address this challenge?

Mr. Reinwald. Well, when we listen to the panel today, you can see that there's a lot of reasons that the prices have gone up. So we're looking for a rational policy to look at the entire food supply chain, so that we can bring product to market reasonable prices.

I think that if it was one thing, the acreage for wheat has been reduced in this country for year after year after year, and we've heard prospects from the Department of Ag of how much acreage is going to be harvested this year, and we only see modest increases.

You have to realize that our carryout on the wheat has been at a dangerously low level for the last 3 years. It has not been as low in 2007—projected carryout has not been as low as 2007, I believe, since 1948.

So, we have to protect our wheat, our wheat farmers, and we have to protect that food chain, so that we can bring product to the market at reasonable costs.

Vice Chair Maloney. Mr. Buis.

Mr. Buis. I outline some things in my testimony that I think would help immediately: One, quit filling the strategic oil reserve; get a moderation of oil prices. That's the bigger culprit.

Two, create an international food reserve. Dr. Glauber and I may disagree on the benefits of that, but if we had a food reserve right now, we could moderate the price impact on people.

Vice Chair Maloney. Since you gave us an outline in your remarks, let me just ask you, which policies would help the most, which of these policies would help the most, the families that are suffering now?

Mr. Buis. Probably the one that would help the most today, for low-income people is, pass the Farm Bill. Four hundred billion of the $600 billion projected cost of the Farm Bill over the next 10 years goes to domestic and international food aid and food nutrition programs.

It's the first time we've indexed those programs for inflation in I don't know, 15 years or longer, and that would help the most. That's on the table.

Vice Chair Maloney. Dr. Glauber.

Dr. Glauber. I guess I would focus first on going back to the causes, and there you know, I look at oil and weather, and there I still come back to the fact that I think the focus—if there is a policy focus—should be certainly on making sure those in need, the neediest ones who need the most in terms of food assistance and et cetera, are taken care of.

I agree with the comments made on the Farm Bill. I think there is a good package in there on food stamps that the Administration has worked with Congress on, and we proposed a lot of that in our own Farm Bill proposals.

Vice Chair Maloney. Dr. Braley.

Dr. Braley. Thank you, Madam Chair. The Farm Bill is, of course, first on our list as well, and the investments that Tom talked about in terms of $400 million over the next 10 years in nutrition programs.

But it's over a $10 billion increase, most of which is in food stamps, but a lot of which is also in emergency food assistance that would benefit our food bank network, and we are desperately in need of that.

We also would like to see some mitigating efforts focused on low-income consumers, by increasing food stamp benefits and emergency food assistance benefits in the economic stimulus package or in the emergency supplemental.

Finally, to mitigate—if we're looking at price increases long term, we need to find ways to mitigate the effects on low-income consumers by maybe more frequent indexing of benefits and some of these kinds of things, so that the purchasing power of food stamps and meal reimbursements, and commodity donations don't erode during the course of the year.

Vice Chair Maloney. All of you have pointed out in your testimony that subsidies—that prices are going up, and we all know that, but are subsidies going down as prices go up for food?

Mr. Buis.

Mr. Buis. Are you talking about farm subsidies to farmers?

Vice Chair Maloney. Yes.

Mr. Buis. Yes, they are. In fact, since 2002, the period of the Farm Bill—2002 until now—the projected costs of the farm program were $23 billion higher than what the Federal Government actually spent, and that's because this safety net for farmers that exists out there, two-thirds of it is what we call countercyclical. When prices go up, assistance goes down.

In fact, this year—and maybe Dr. Glauber can tell for sure, USDA is not projected to pay out any assistance on those countercyclical programs.

There's always the question of whether or not they go down enough. We have advocated in this Farm Bill, totally eliminating any payments other than the countercyclical target price, so you're only giving a safety net in times of low prices.

Unfortunately, we didn't do that, but the subsidies have gone down probably from around $20 billion 6 years ago, down to a projected $7 billion to $8 billion today.

Vice Chair Maloney. Thank you.

Finally, Mr. Reinwald, are people being more frugal with their purchases, as we see the prices continue to rise? Are you seeing that in your bakery?

Mr. Reinwald. What we see is that I would think that people come in less often. When we talk about a staple of bread—and you usually view bread lasting 2 days—so now they're buying two loaves of bread a week, instead of three.

But the interesting thing that I have found over the last 6 weeks is that more and more of our purchases are being bought with credit cards, so people are putting their food purchases on their credit card, and that's becoming a dangerous factor.

Vice Chair Maloney. And you noted earlier that, to respond to rising food prices, you instituted across-the-board price increases. What other initiatives have you adopted to adjust to rising food prices?

Mr. Reinwald. Well, previously, we——

Vice Chair Maloney. Have you had to lay anyone off yet?

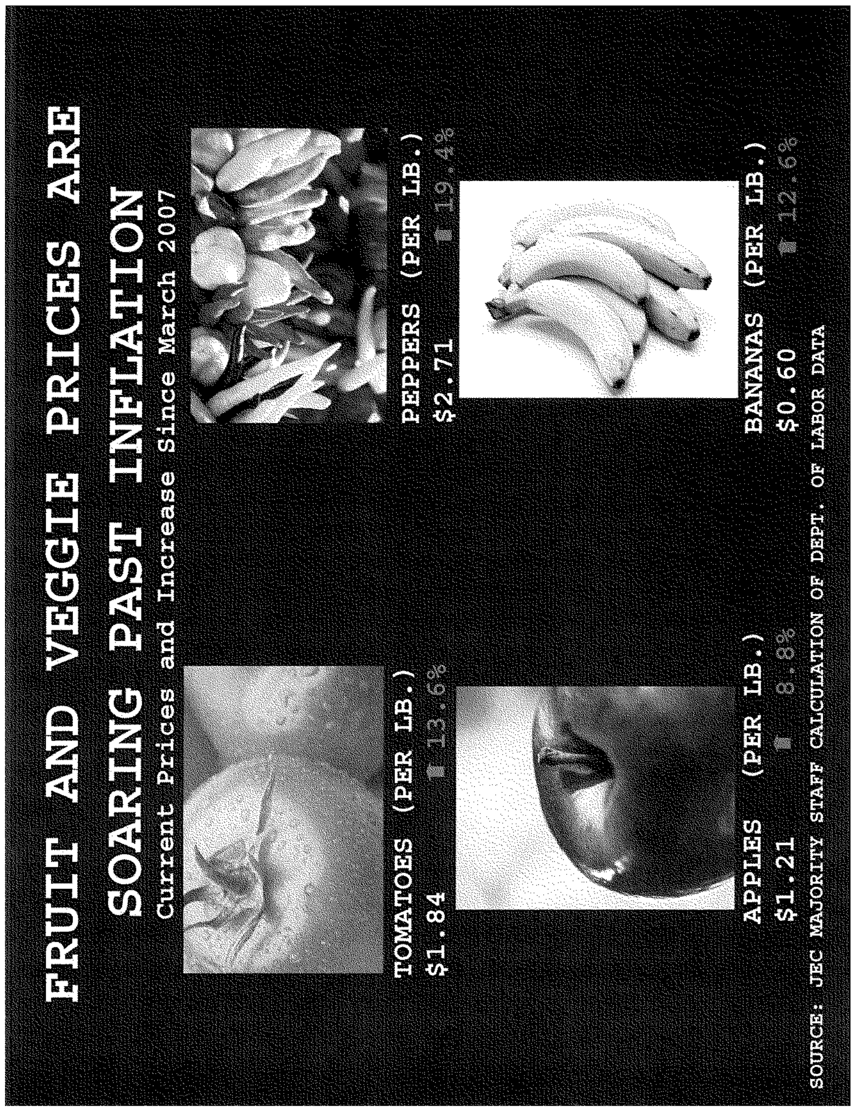
Mr. Reinwald. Very luckily for me that I had two voluntary lay-offs, two voluntary resignations, so that helped. In the coming weeks, we're going to have to reexamine that very closely.

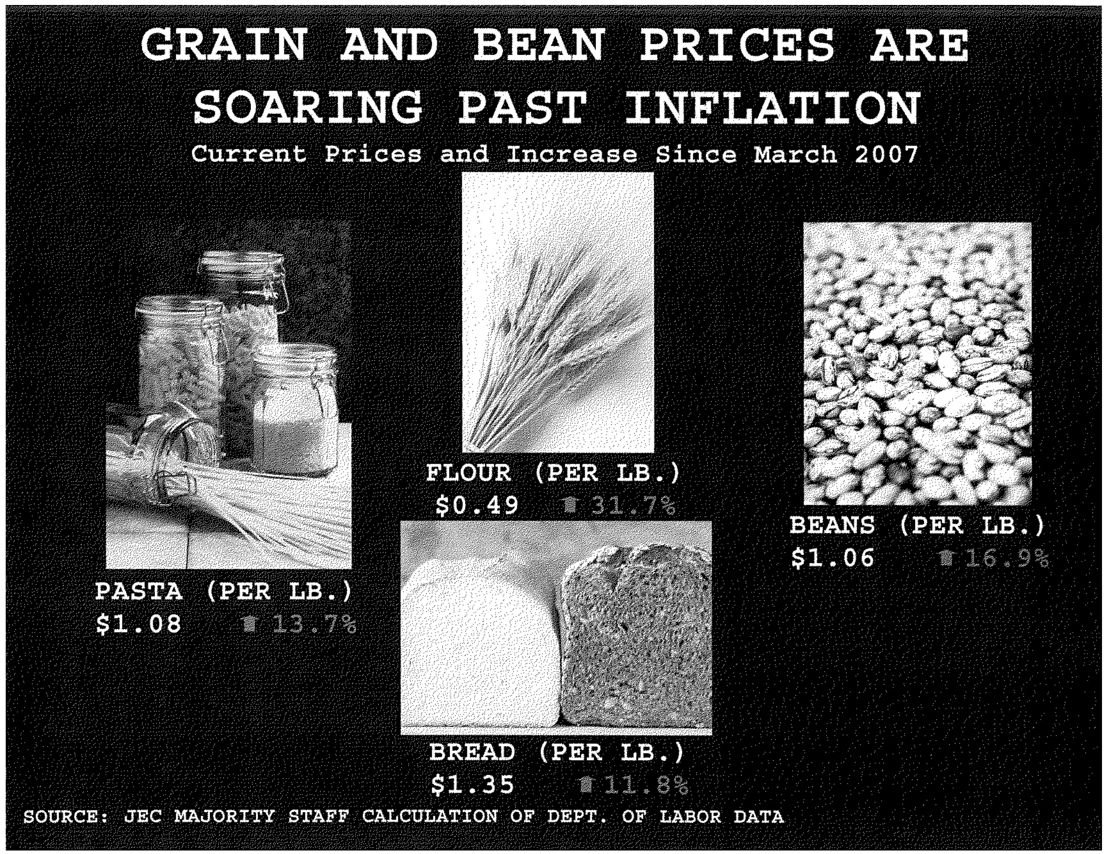
Vice Chair Maloney. My time has expired. This has been very informative. You've really given us many policy issues to study, and we thank you for your testimony.

We are adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]

Submissions for the Record


FRUIT AND VEGGIE PRICES ARE SOARING PAST INFLATION
Current Prices and Increase Since March 2007
TOMATOES (PER LB.)
$1.84 13.6%
PEPPERS (PER LB.)
$2.71 19.4%
APPLES (PER LB.)
$1.21 8.8%
BANANAS (PER LB.)
$0.60 12.6%
SOURCE: JEC MAJORITY STAFF CALCULATION OF DEPT. OF LABOR DATA


GRAIN AND BEAN PRICES ARE SOARING PAST INFLATION
Current Prices and Increase Since March 2007
PASTA (PER LB.)
$1.08 13.7%
FLOUR (PER LB.)
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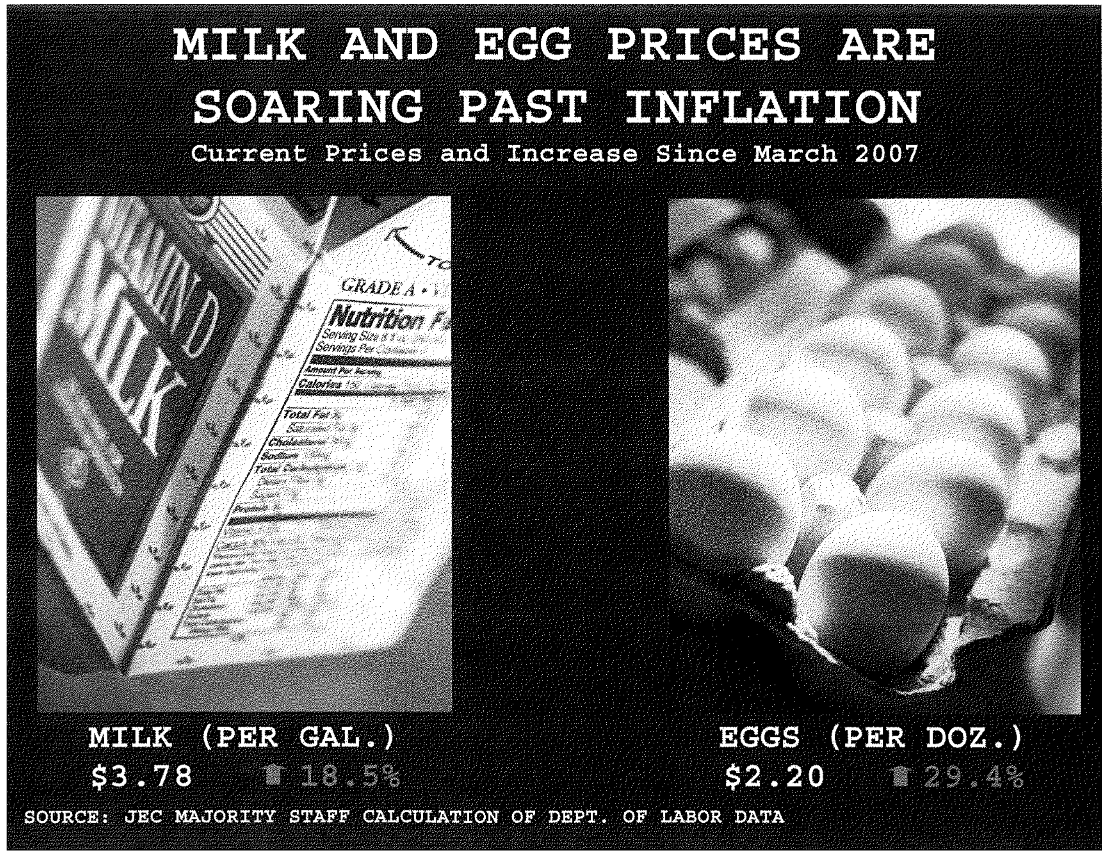
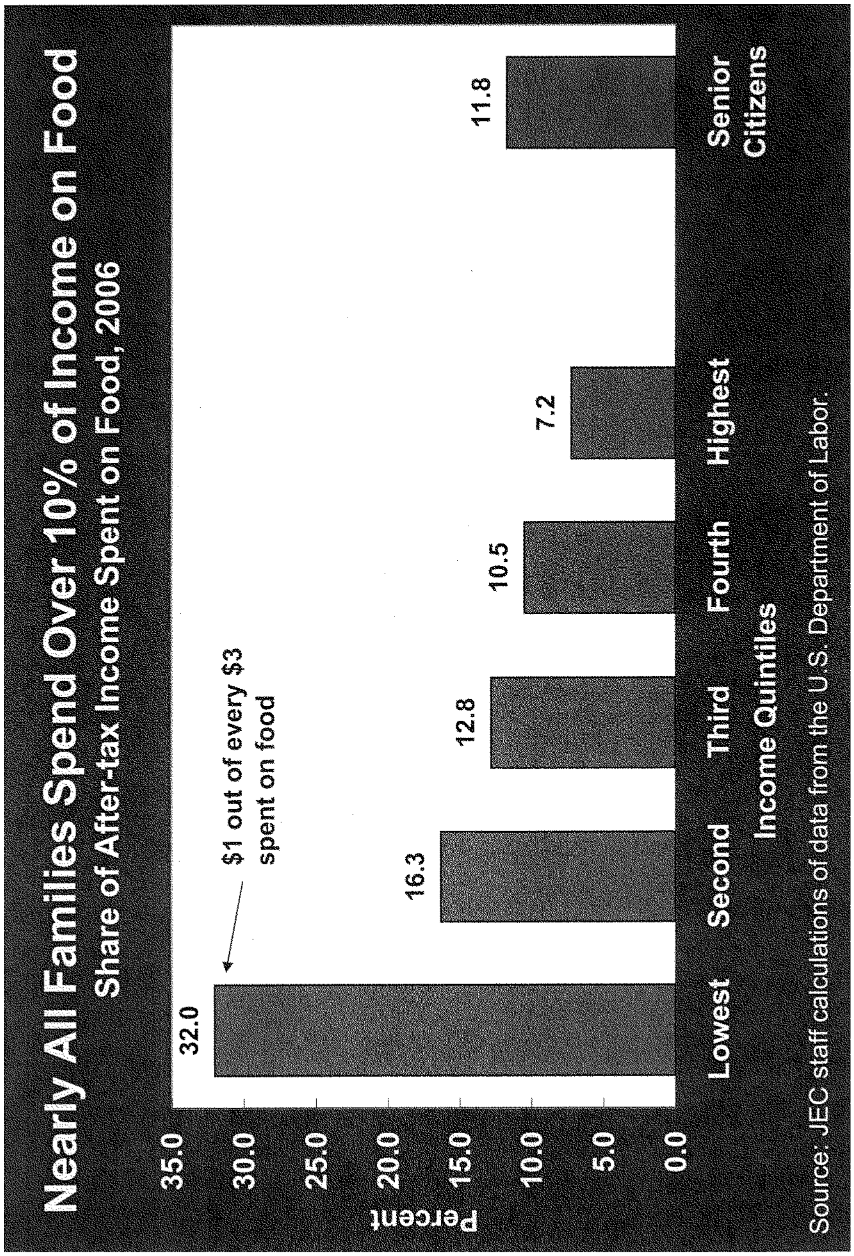
BEANS (PER LB.)
$1.06 16.9%
BREAD (PER LB.)
$1.35 11.8%
SOURCE: JEC MAJORITY STAFF CALCULATION OF DEPT. OF LABOR DATA


MILK AND EGG PRICES ARE SOARING PAST INFLATION
Current Prices and Increase Since March 2007
GRADE A
Nutrition Facts
MILK
MILK (PER GAL.)
$3.78 18.5%
EGGS (PER DOZ.)
$2.20 29.4%
SOURCE: JEC MAJORITY STAFF CALCULATION OF DEPT. OF LABOR DATA


Nearly All Families Spend Over 10% of Income on Food
Share of After-tax Income Spent on Food, 2006
Percent
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
32.0
$1 out of every $3 spent on food
16.3
12.8
10.5
7.2
11.8
Lowest
Second
Third
Fourth
Highest
Senior Citizens
Income Quintiles
Source: JEC staff calculations of data from the U.S. Department of Labor.

JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER, CHAIRMAN
REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR

PREPARED STATEMENT OF SENATOR CHARLES E. SCHUMER, CHAIRMAN

I would like to welcome you to the first Congressional hearing this year about the soaring prices of food and the impact on families here at home.

For many years price increases in certain foods like cereal have vexed consumers, but now we are hearing from people about food prices going up across the board. When you walk down the street, you hear people complaining about food prices almost as much as gas prices. *While gas prices seem to be the number one issue today, I believe the anxiety felt over higher food prices is going to be just as widespread and will equal or surpass the anger and frustrations so many Americans have about higher gas prices.*

I want to look at what's behind the rise in food prices and frankly, what that rise in prices looks like for average American families.

My wife, Iris, and I went to Fairway last weekend, our neighborhood grocery store in Brooklyn, and we continue to be floored by the prices. From aisle to aisle, shelf to shelf, including everything from staples to special treats, the prices families are paying to fill their shopping carts have gone up—a lot. *While we have been cringing at gas stations as gas prices have more than doubled since 2001, now it's a double whammy. We pay more to drive to the supermarket, and then get hit with higher prices when we get there.*

Our family does pretty well, but even we feel it. Like many others we have a family budget, and right now we are budgeting $40 more a month for groceries—while we feel the 40 dollars, we can afford it, but for many families it is a much greater struggle. They don't have extra income for higher food prices and have to stretch their dollars, or even worse, cut back on their food purchases altogether.

The prices of milk, cheese, chicken, eggs, ground beef regular stuff—are way up. If you're trying to eat healthier it is even worse. We buy light wheat bread, which we're paying almost $4.00 for now, up from almost $3.00 since we started eating it a few years ago. I'm a meat-eater and what we buy now is largely dictated by what is on special that week at Fairway or Costco.

My daughter, like many young people and families now, wants to buy organic chicken and other organic food. Those prices are shooting up even higher. At Fairway, we can buy a whole regular chicken for about $5; but an organic chicken is almost $12.

Higher food prices have squeezed small businesses too. Our local bakeries closed recently—Uprising, which sold bread and cakes on 7th Avenue, and Regina's Italian Bakery. Was it because of higher grain prices? I don't know for sure, but it certainly wasn't because local bakeries are making a killing off their Brooklyn customers. Even bagels are over $5 for a dozen now.

When it comes to higher food prices, even when they're not going up by large percentages, there isn't much room for error. Everyone has to buy food to feed their families and it already swallows over 12 percent of the average household budget. When gas prices are high, families may decide to drive a little less or carpool or take the subway. When food prices are higher, families can't just decide to not feed their children. And because they have less to spend on food, what they do buy is often much less healthy.

Now to be clear, not every single product in the grocery store is more expensive than it was a year ago or even 7 years ago. Some food products, because of more efficient processing, less transportation, or just more plentiful supplies, cost consumers less or as much as they have for years. For instance the price of pork per pound has gone down about 20 percent from January 2001 to last month.

But the prices of the staples we all depend on for a healthy diet, like eggs, bread, milk, fruits, are rising by eye-popping leaps and bounds, especially in the last year.

For instance, between January 2007 and January 2008, egg prices alone went up nearly *40 percent* and are up almost *80 percent* since January 2001. Eggs are just one example in a broader trend; from January 2007 to January 2008, the Consumer Price Index (CPI) for all food grew by nearly *5 percent,* the highest 12 month increase in over 17 years. Americans are paying 5 percent more for food and the same time many people are seeing their paychecks shrinking.

As we'll learn in more detail from our panel, flour prices have gone up at least *30 percent* since January 2001. This has raised prices for good old processed white bread, but has also raised the costs for fresh baked breads, rolls, bagels, or muffins you might buy at Reinwald's Bakery or H&M bagels.

Another area that is not on the radar screen just yet but will be a bigger problem as farmers adjust their crops is the rising costs and potentially dwindling supplies of fruits and vegetables. Apples, grapefruits, potatoes, beans and broccoli have gone up over *20 percent* since January 2001 and peppers are almost *40 percent* more expensive than January 2001.

While some might be telling us to make lemonade out of the lemons this economy has given us—that too will be more expensive—since January 2001 the price of lemons have gone up nearly 50 percent.

Let's look at some of the average prices of items we shop for in our grocery stores—and how much they've gone up since last March.

As I said, fruits and vegetables have gone up a lot:

Peppers are up almost 20 percent, tomatoes and bananas are up about 13 percent, apples are up almost 10 percent.

A pound of pasta is up over 13 percent, a regular loaf of bread is almost 12 percent higher, and a pound of beans is 17 percent higher. And flour is up a whopping 32 percent.

Milk is almost 20 percent higher per gallon, and buying a dozen eggs is 30 percent more expensive than it was last year.

While the economic message we are getting out of the Bush Administration sounds like "let them eat cake," I assure you, it is a much more expensive cake than you were eating when President Clinton was in office.

Even the foods that aren't going up as much are still going up beyond the level of inflation.

Energy Costs

Two of the main culprits sending food prices higher are commodity and energy costs. Agricultural prices were up over 33 percent in the past 12 months. And between March 2007 and March 2008, inflation-adjusted corn and soybean prices shot up 35 and 67 percent, respectively. To Mr. Reinwald's detriment, wheat prices increased unbelievably, by over 130 percent.

Energy is a key ingredient to the food industry, both for primary commodities and for processing, marketing, and distributing everything from apples to zucchini and bread to yogurt.

- And the price per barrel of oil per barrel has rocketed beyond $100 and is currently $116!
- Prices for natural gas—the primary ingredient for making fertilizer—are up 33 percent from a year ago;
- Diesel fuel is up over 45 percent; and
- Regular unleaded gasoline prices have jumped 27 percent over the year.

High gasoline prices don't just raise transportation costs; they increase demand for gasoline substitutes, mainly ethanol derived from corn.

On top of higher gasoline prices, tax subsidies and Federal bio-fuel mandates have boosted the amount of domestic corn crops devoted to producing ethanol to nearly *one quarter* of the crop in 2007, from less than *15 percent* in 2005. And in 2008, over *30 percent* of the corn crop will be going into gasoline tanks according to USDA estimates. This has obviously raised the price of corn and grains because farmers have shifted more land into corn production, squeezing domestic supplies of wheat, soy, and many other crops. In other words, you don't have to be a big corn eater to feel the result of the demand for corn. When farmers produce more corn, they produce less of everything else—driving up prices across the board.

Corn, soybean, wheat, and energy prices have gone up so much that consumers are seeing significant increases in the price of groceries. Eggs, and dairy prices are up sharply in part because the cost to feed animals has more than doubled since 2001. Energy costs have also helped drive fruit and vegetable prices higher. Highly processed foods are less vulnerable to higher commodity prices, but are still going up for many Americans because of increased energy costs. The Food and Agricultural Policy Research Institute predicts that continuing high oil prices and bio-fuel mandates from last year's energy bill will keep prices at historic highs across the board.

It is also critical to remember that commodities are global and supply reductions in other countries are transmitted to prices paid in U.S. markets. Bad weather, like droughts in Australia and Eastern Europe and reduced production in Canada, Western Europe, and the Ukraine has put world grain stocks at historically low levels as demand has grown, especially in places like China and India.

Beyond increasing energy prices, bio-fuel mandates, global demand, and weather issues, speculation emboldened by low interest rates may also have some role in raising prices for consumers. Low real interest rates increase the profitability and decrease the risk of speculating in commodities and also act as a hedge against inflation. Moreover the falling U.S. dollar has decreased consumer purchasing power and made these higher food costs tougher to swallow—especially among middle and lower income families.

Those families are spending an even higher percentage of their incomes on food. According to this chart 80 percent of families spend more than 10 percent of the budgets on food and for the bottom 20 percent of families making the least, almost one of every three dollars they earn after taxes goes toward buying food.

Higher food prices are especially bad news for poor households. The share of U.S. households that receive food stamps has climbed dramatically from 7.5 percent in December 2001 to over 11 percent in December 2007, and these numbers may even understate the problem. On a global scale, higher food prices and scarcity are leading to civil unrest in many developing nations, like Haiti, that rely almost solely on imports for food.

Last week, Costco and Sam's Club discount stores were limiting the amount of rice customers could buy per visit. *Prohibiting customers from purchasing more than four 20-pound bags of rice is not worthy of rioting, but it is evidence that families, even here at home, are very anxious.*

Getting to the bottom of the cause of high food prices will not be easy, but as we consider appropriate policy responses, we need to understand them and hopefully our panelists will help us do that today.

CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

Congressman Jim Saxton
Ranking Republican Member

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, RANKING MINORITY

Washington, D.C.—It is a pleasure to join in welcoming the panel of witnesses before us today. In recent months, a rise in commodity prices worldwide has led to increases in the prices of food in the U.S., as well as in many other nations.

We all are concerned about the impact of food prices on the American family. The global food crisis has led to outbreaks of food riots and potential famine in other countries, which is disturbing as well. The global food crisis has several causes, according to objective analysts.

One factor is higher demand for food from China, India, and other countries undergoing rapid economic development. Another factor is drought or dry conditions in Australia and other grain-exporting nations. An additional factor has been export tariffs on food imposed by several countries. Since many farm commodities are traded globally, the effects of these international factors on U.S. food prices should not be neglected.

Government policy has also made a major contribution to the food crisis. As the respected *Financial Times* noted yesterday, "Protection, subsidies and other such follies distort agriculture more than any other sector. . . The present crisis is a golden opportunity to eliminate this plethora of damaging interventions."

Unfortunately, despite high food prices, the U.S. Congress seems to be moving in the opposite direction. According to Democratic Congressman Ron Kind, the forthcoming farm bill "looks like a nightmare," and "Negotiators managed to avoid every opportunity to reform wasteful, outdated subsidies." Consequently, not only will consumers be hit with higher food prices, but they will have to pay again to finance billions of subsidies for farmers, a number of whom are already quite wealthy.

The U.S. import tariff on ethanol is another factor contributing to higher food prices. This tariff provides an incentive for farmers to produce more corn than they otherwise would for the domestic ethanol industry. If the tariff were repealed, farmers would have more incentive to produce corn or other crops for food, increasing supply.

Finally, to the extent that the Federal Reserve's monetary policy has been too easy, short-term inflation pressures may have increased, raising commodity prices in general. In addition, higher fuel prices, partly due to OPEC's restrictive policies, have contributed to the increase in food prices by boosting the cost of fertilizer, processing, and transportation.

As consumers face higher prices in coming months, Members of Congress will continue to express their concern. However, what matters more than rhetoric is the action that Congress takes. Will Congress actually proceed to enact what Congressman Kind described as a "nightmare" of "wasteful, outdated subsidies" even as food prices continue to rise, or will there be genuine reform? As things appear now, the prospects for reform don't look very promising. If this is the case, consumers can look forward to paying high food prices, and then paying again as taxpayers to finance billions in farm subsidies. Another opportunity for reform will have been lost.

JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER, CHAIRMAN
REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR

PREPARED STATEMENT OF REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR

Good morning. I would like to thank Chairman Schumer for holding this hearing to examine rising food prices and the impact it's having on American families.

This week, Big Oil companies are reporting record profits, but families are struggling to make ends meet in the face of stagnant wages and rapidly rising fuel and food prices. In some areas of the country, people are paying $4 for both a gallon of milk and a gallon of gas. Families are forced to cut back on meats and fresh vegetables, for lower-cost items such as pasta and canned foods—some are calling it the recession diet.

As the price of oil sets a new record almost daily, it is clear that rising fuel costs are driving up the cost of food. Higher energy costs have driven up the cost of commodities—such as corn and wheat—feed for livestock, and transportation to get products to market.

As we will hear from our witnesses today, other factors have also contributed to rising food prices, such as growing global demand, severe weather in farm regions, and increased speculation in commodity futures markets that have caused price spikes for certain crops.

In our quest to become less dependent on foreign oil, we face a new dilemma between raising crops for food or fuel.

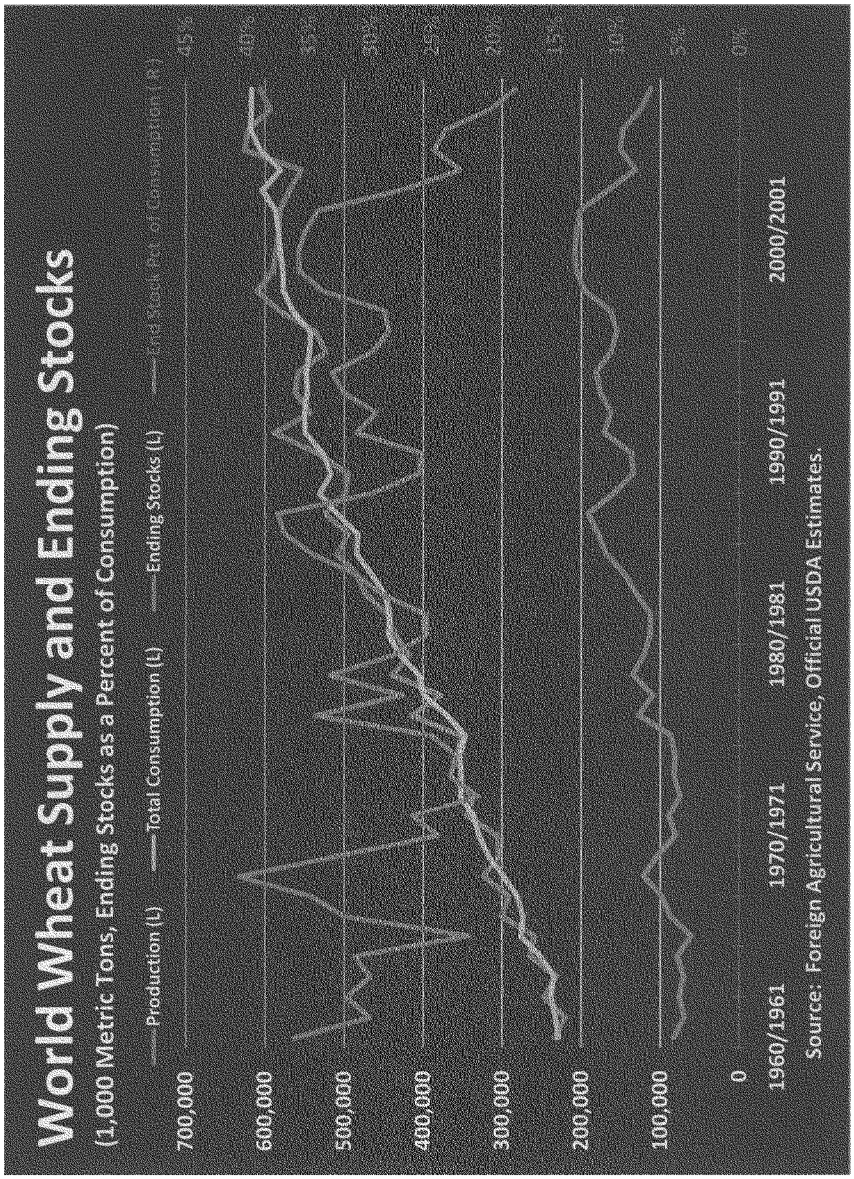
We will hear from a bakery owner in New York who is seeing prices spike for fuel and grains, on top of declining sales as consumers cut back. We will also hear from Second Harvest about how food banks are seeing an increasingly large number of people seeking help, while food donations are declining. The Food Bank for New York City and City Harvest serve over 300,000 people per month, many of whom are the working poor who have to choose between food and utilities, housing or health care each month.

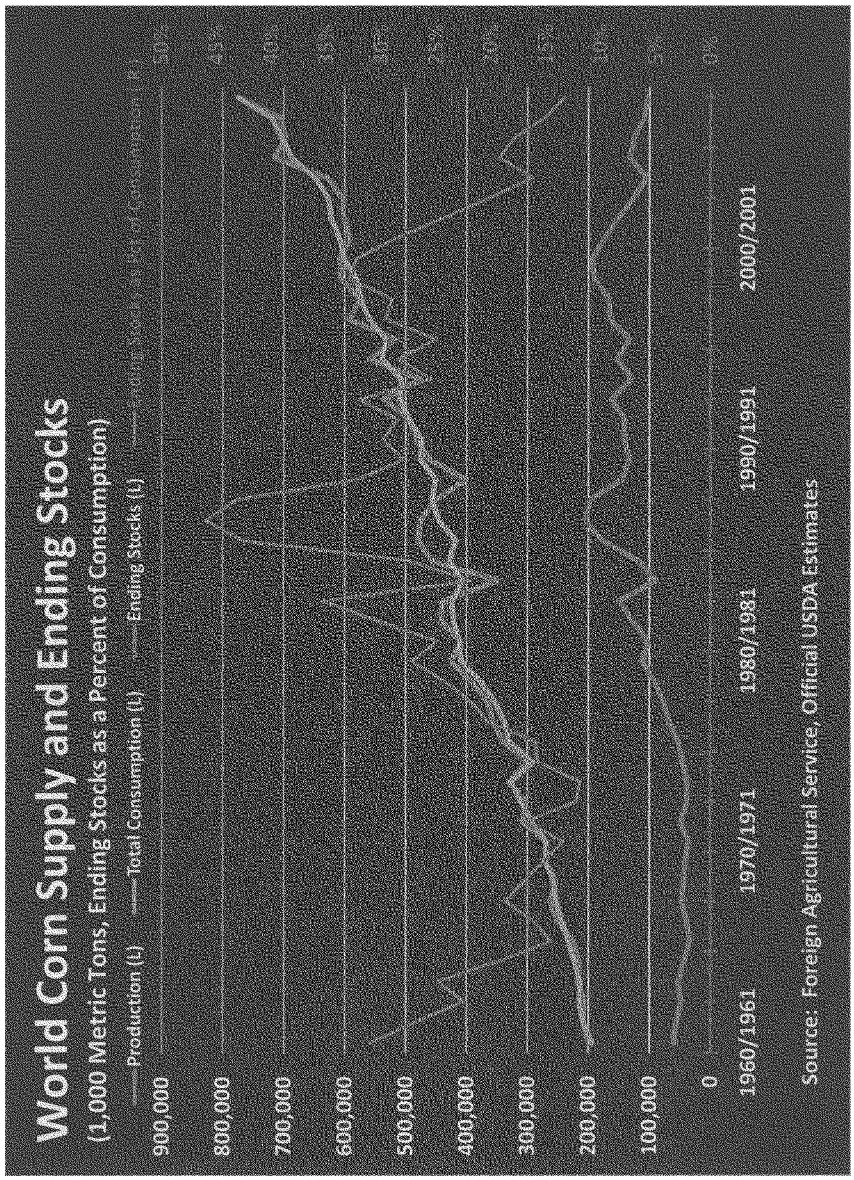
We need to find ways to bring relief to families who are feeling the squeeze of higher prices.

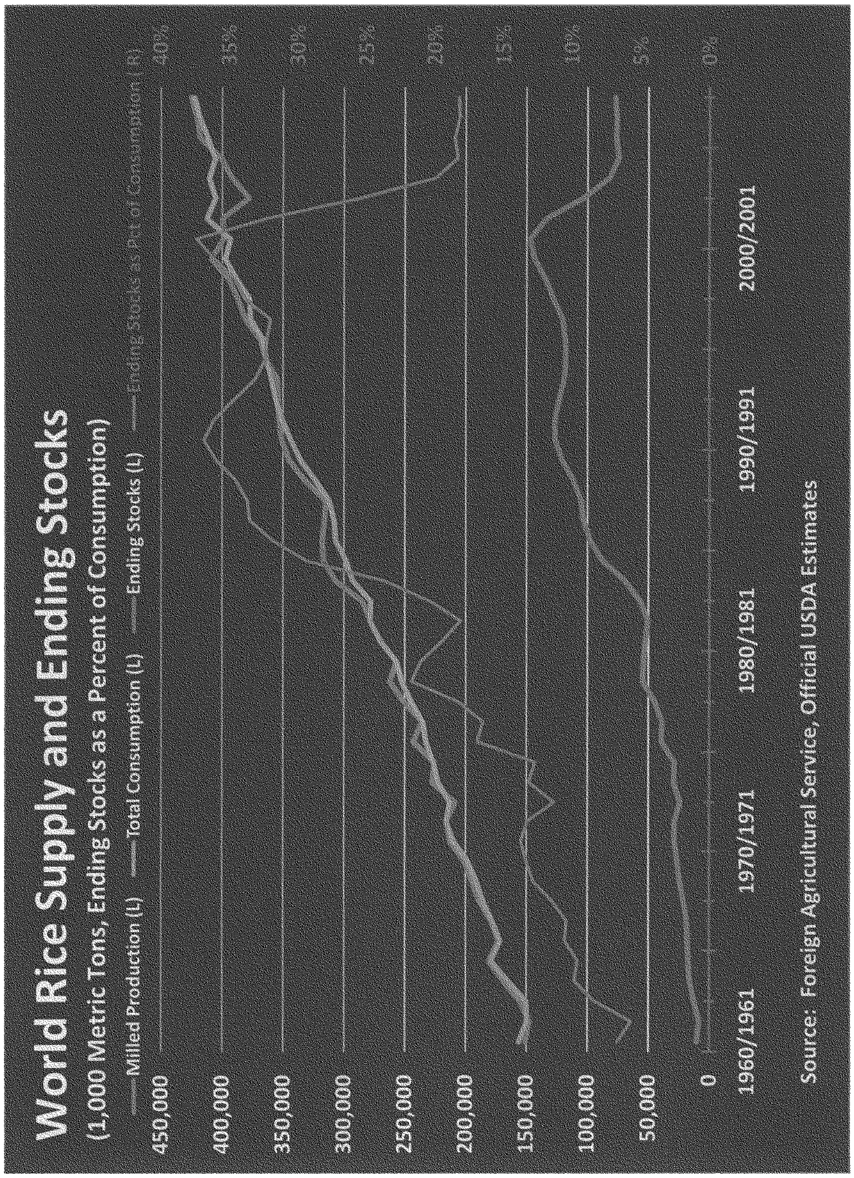
We have taken concrete steps in the House to try to end unnecessary subsidies to Big Oil companies and invest in clean fuels and efficiency by passing the Renewable Energy and Energy Conservation Tax Act back in February. And last year's energy bill ensures that biodiesel and cellulosic sources, such as switchgrass, are key ingredients of renewable fuels.

The President and Republicans in Congress blocked attempts to expand food stamp and Unemployment Insurance benefits as part of the first stimulus package. The Speaker has urged them to come back to the table to negotiate a second stimulus package that should include both of these measures for struggling families.

Mr. Chairman, thank you for holding this hearing and I look forward to the testimony today.


World Wheat Supply and Ending Stocks
(1,000 Metric Tons, Ending Stocks as a Percent of Consumption)
Production (L)
Total Consumption (L)
Ending Stocks (L)
End Stock Pct. of Consumption (R)
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1960/1961
1970/1971
1980/1981
1990/1991
2000/2001
Source: Foreign Agricultural Service, Official USDA Estimates.


World Corn Supply and Ending Stocks
(1,000 Metric Tons, Ending Stocks as a Percent of Consumption)
Production (L)
Total Consumption (L)
Ending Stocks (L)
Ending Stocks as Pct of Consumption (R)
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1960/1961
1970/1971
1980/1981
1990/1991
2000/2001
Source: Foreign Agricultural Service, Official USDA Estimates


World Rice Supply and Ending Stocks
(1,000 Metric Tons, Ending Stocks as a Percent of Consumption)
Milled Production (L)
Total Consumption (L)
Ending Stocks (L)
Ending Stocks as Pct of Consumption (R)
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
40%
35%
30%
25%
20%
15%
10%
5%
0%
1960/1961
1970/1971
1980/1981
1990/1991
2000/2001
Source: Foreign Agricultural Service, Official USDA Estimates

BARRON'S

MONDAY, MARCH 31, 2008

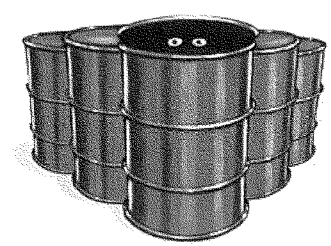
BARRON'S COVER

Commodities: Who's Behind the Boom?

By GENE EPSTEIN

CHINA, AS EVERYONE KNOWS, IS A BIG FORCE IN THE extraordinary boom in commodities. Its voracious appetite for everything from corn and wheat to copper and oil has helped push up U.S. commodities prices by some 50% over the past 12 months.

But China is by no means the whole story. Speculators -- including small investors -- are also playing a huge role. Thanks to the proliferation of mutual funds and exchange-traded funds tied to commodities indexes, speculative buying has gone way beyond anything the domestic commodities markets have ever seen. By one estimate, index funds right now account for 40% of all bullish bets on commodities. The speculative juices are even more plentiful -- nearly 60% of bullish positions -- if you count the bets placed by traditional commodity "pools."



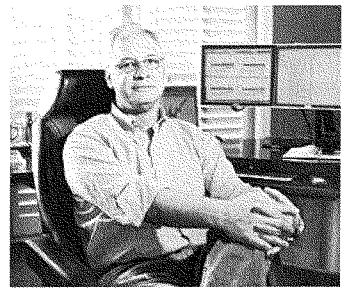
Index funds with buy-only strategies have had outsized influences on the market.

Here's the problem: The speculators' bullishness may be way overdone, in the process lifting prices far above fair value. If the speculators were to follow the commercial players -- the farmers, the food processors, the energy producers and others who trade daily in the physical commodities -- they'd be heading for the exits. For right now, the commercial players are betting on price declines more heavily than ever before, says independent analyst Steve Briese.

For example, in the 17 commodities that make up the Continuous Commodity Index, net short positions by the commercials have been running more than 30% higher than their previous net-short record, in March 2004.

Briese, author of the recent book *The Commitments of Traders Bible* and editor of the Website CommitmentsOfTraders.org, was one of the first to recognize that information on the bets made by the commercials could provide rare insights into how the "smart money" views the price outlook. These days, the data suggest, the smart money clearly believes that the market's exuberance has turned irrational.

Indeed, the great commodities bubble started springing its first leaks two weeks ago: Oil, gold and other major commodities posted their steepest weekly drop in half a century. Though prices have since firmed, they could eventually drop 30% as speculators retreat. The only real question is when.



Scott [illegible]

Analyst Steve Briese sees heavy short-selling by pros.

IT'S NOT EASY TO SIZE UP THE influence of the index funds. But based on their known cash commitments in certain commodities, and the commodity indexes their prospectuses say they track, it is possible to estimate the size of their commitments in all commodities they buy. Using this method, analyst Briese (pronounced "breezy") estimates that the index funds hold about $211 billion worth of bets on the buy side in U.S. markets.

Applying a similar method, but with slightly different assumptions for indexes tracked, Bianco Research analyst Greg Blaha puts that figure at $194 billion. Either figure is enough to turn the index funds into the behemoths of the commodity pits, where total bullish positions now stand at $568 billion.

Commodities index funds, which arrived on the scene in the late 1990s, have come into their own in the past several years. The biggest index fund, Pimco Real Return (ticker: PRTNX), has seen its assets swell to $14.3 billion from $8 million since its inception in January 1997.

Index funds offer investors an easy, inexpensive way to gain exposure to a segment of the commodities markets or a broad-based basket of commodities. Result: The funds have drawn many private investors who have never ventured into futures, along with pension funds and other institutional players looking to diversify. But for all the virtues that the funds hold as a way of spreading bets across commodity markets, they take only long, or bullish, positions, avoiding short-selling. In other words, they trade on the naïve and potentially fatal assumption that commodities have the same tendency as stocks to rise over the long run.

That this large, bullishly oriented group of funds is flourishing is partly a result of a regulatory anomaly. In recognition of the fact that the commodity markets are too small to absorb an excess of speculative dollars, the Commodity Futures Trading Commission, in conjunction with exchanges, imposes position limits on speculators. But the agency has effectively exempted the index funds from position limits.

The dislocations caused by allowing so much money into markets that have limited liquidity is now causing alarm in the trading pits. That, in turn, is prompting the CFTC to call for an industry gathering April 22 at its Washington headquarters "to hear firsthand from participants to ensure that the exchanges are functioning properly." On this and related issues, CFTC Acting Chairman Walter Lukken declined to comment to *Barron's*.

Unless regulators clamp down, the index funds could become an even bigger force in the markets. In the midst of the recent sell-off, commodity bull Jim Rogers made that very point in an interview with Bloomberg News. Referring to the "over 70,000 mutual funds in the world" compared with the "fewer than 50" that now invest in commodities, he held out the prospect of a speculative bubble that could last for years.

In Rogers' view, the bull market is in the "fourth inning" of a "nine-inning baseball game." To which commodity bear Steve Briese counter-quips, "Maybe, but can't the game be called for a year or two, on account of rain?"

IN THE ORGANIZED COMMODITY MARKETS, trading is in futures and options, which are essentially two-way bets on the outlook for prices. For every buyer (a "long") of a future or options contract betting on a price rise, there is a seller (a "short"), taking the other side of the contract by betting on a price decline. Since speculators and commercials as a group can be either short or long, the charts (see the last page) track the net position -- longs minus shorts -- held by either group. Courtesy of Briese, the charts track net long or short positions in dollars, based on the dollar value of the commodity each futures or options contract covers.

The speculators, now so bullish, are mainly the index funds. To see how their influence on the market has become outsized, just look at how they operate. Nearly $9 out of every $10 of index-fund money is not traded directly on the commodity exchanges, but instead goes through dealers that belong to the International Swaps and Derivatives Association (ISDA). These swaps dealers lay off their speculative risk on the organized commodity markets, while effectively serving as market makers for the index funds. By using the ISDA as a conduit, the index funds get an exemption from position limits that are normally imposed on any other speculator, including the $1 in every $10 of index-fund money that does not go through the swaps dealers.

The purpose of position limits on speculators, which date back to 1936, is clearly stated in the rules: It's to protect these relatively small markets from price distortions. An exemption is offered only to "bona fide hedgers" (not to be confused with "hedge funds"), who take offsetting positions in the physical commodity.

The basic argument put forward by the CFTC for exempting swaps dealers is that they, too, are offsetting other positions -- those taken with the index funds.

Position limits on speculators, in some commodities specified by CFTC rules and in others by the exchanges, are generally quite liberal. For example, the position limit on wheat traded on the Chicago Board of Trade is set at 6,500 contracts. At an approximate value of $60,000 worth of wheat per contract, a speculator could command as much as $390 million of wheat and still not exceed the limit.

But at least one index fund that does trade the organized commodity markets directly and must therefore abide by the rules -- PowerShares DB Multi-Sector Commodity Trust (DBA) -- recently informed investors that it was bumping up against position limits and therefore would change its strategy.

No such information is available from individual swaps dealers. But based on CFTC data on their total position in a commodity like wheat, together with the fact that only four dealers account for 70% of all the trading from the ISDA, it is quite clear that if the exemption were ever rescinded, the dealers' trading in these markets would no longer be viable.

Speculators also use the older commodity pools, whose position is likewise tracked on the charts. The pools, open to sophisticated investors, are flexible enough to sell short as well as buy long and are subject to position limits. But since they are generally trend-followers, they will almost always go long in bull markets. Through most of the recent period, then, the pools have been adding to the price distortions caused by the index funds. Add the pools' bets to those of the index funds, and speculative money forms 58% of all bullish positions.

To get a further idea of the impact of these speculative bets, *Barron's* asked Briese to measure them against production in the underlying markets. He calculates that in soybeans, the index funds have effectively bought 36.6% of the domestic 2007 crop, and that if you add the commodity pools, the figure climbs to 59.1%. In wheat, the figures are even higher -- 62.3% for the index funds alone, and the figure jumps to a whopping 83.6% if you add the pools. Betting against them as never before are the commercials, who deal in the physical commodity.

The CFTC provides these figures on index trading for only 10 commodities. Why are such major commodities as crude oil, gold, and copper excluded? The agency's rationale, which even certain insiders question, is that it would be hard to get reliable information on these other commodities from the swaps dealers.

WHAT MIGHT FINALLY TRIGGER THE bursting of the commodities bubble?

One possible trigger was cited in a *Barron's* interview with Carl Weinberg of High Frequency Economics, published last week. Weinberg anticipated a break "some time this year" in industrial commodities, including crude oil, copper and natural gas once there is news of "even the slightest slowdown in the Chinese economy," the country whose insatiable demand, together with that of India, has been a rallying cry of the bullish speculators. When industrial commodities prove vulnerable, speculative money could start fleeing agricultural commodities, also.

Société Générale analyst Albert Edwards goes much further. Based on his view that the "Commodity bubble is nonsense on stilts," Edwards holds the "very strong conviction that before the end of this year, commodity prices...will be unraveling." He believes the triggering events will be the "unfolding U.S. consumer recession" and likelihood of "negative CPI [consumer price index] inflation rates."

A sudden turnaround in the dollar could be another trigger, notes Briese. By making dollar-denominated commodities ever cheaper in terms of other currencies, the collapsing dollar has been a legitimate bullish factor. "But the buck won't go down forever," Briese argues. "The same cycles that coincided with the dollar's major bottom in 1992 are due to make a low later this year. A rebounding dollar would pinch demand for dollar-denominated commodities."

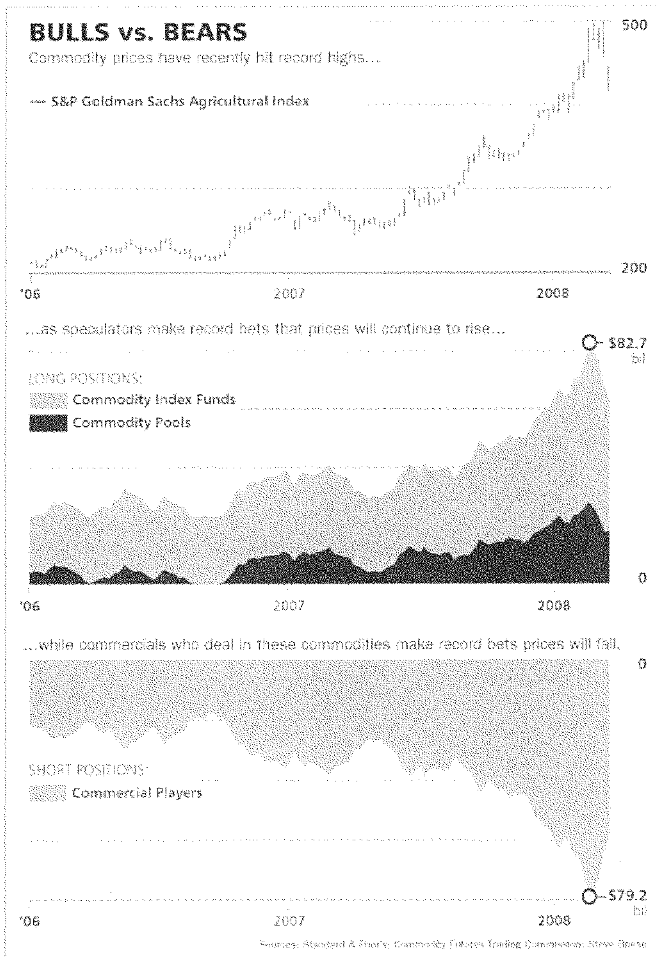
Alternatively, to borrow a quip from the late humorist Art Buchwald -- who once explained that his candidate lost the election owing to "not enough votes" -- the bubble could burst from not enough buying. Brokerage houses have been advising their clients to allocate part of their portfolios to commodities, compared with allocations of zero several years ago. Even a shift of five percentage points would have been more than enough to account for the dollars that have fueled the "nonsense on stilts."

But what if the U.S. economy proves more resilient than currently thought, doesn't fall into recession, and instead starts growing again? The resulting rally in the stock market could send the allocation share back to zero and the bubble could burst, not with a bang, but with a whimper.

The CFTC could also prick the bubble by enforcing its own rules. If the agency were to rescind the exemption on position limits given to the index funds (say, on a phased basis, so that the funds could make an orderly retreat), prices would probably fall back to reflect their true supply-demand fundamentals.

Briese's analysis of commercial hedger positions leads him to believe that commodities in general were fully valued in terms of the fundamentals as of early September 2007. Based on the 24-commodity S&P Goldman Sachs Commodity Index, that would mean about a 30% collapse from present levels. But, he adds, "Given the tendency for prices to overshoot, commodity values could be cut in half before they stabilize."

Maybe it's time to start listening to the smart money.



E-mail comments to mail@barrons.com

JOINT ECONOMIC COMMITTEE
SENATE REPUBLICANS
SENATOR SAM BROWNBACK, SENIOR REPUBLICAN SENATOR

PREPARED STATEMENT OF SENATOR SAM BROWNBACK

Thank you, Mr. Chairman. I appreciate you scheduling today's hearing. Rising food prices are a real concern for American families, especially when combined with high gasoline prices. However, I wish that this hearing was focused more broadly. Rising food prices are not simply an American issue. Rising food costs and shortages are global challenges.

Food price increases here in the United States pale in comparison to price increases throughout the rest of the world. Over the past year, the Food and Beverage component of the Consumer Price Index has increased by a little more than 4 percent, with the price of many products such as milk and eggs rising by 20 percent or more. The Department of Agriculture predicts that food price inflation for 2008 will be about 4.5 percent. While a 4.5 percent increase in the food prices represents a near-term high for food price inflation, it is still low by historical standards. Since 2000, food price inflation has averaged 2.7 percent, compared to 2.8 percent in the 1990's, 4.6 percent in the 1980's, and 8.1 percent in the 1970's.

On the other hand, over the past year alone, world food prices have risen 57 percent, with the price of important staples such as rice and wheat more than doubling at times. Over the past 3 years, world food prices have risen 83 percent. Prior to the recent rise, world food prices had been on a steady decline, falling in real terms by 75 percent from 1975 to 2005.

As a result of the recent rise in food prices, many people in developing countries face severe hunger. For the approximately one-billion people living on $1 per day, food price increases of 50 percent or more can mean a significant reduction in food consumption and a less nutritious diet. Although many developing countries have experienced significant reductions in poverty levels in recent years due to real income gains, rising food prices threaten to erode those gains. A rise of just 20 percent in food prices would push an additional 100 million people back down to the level of absolute poverty ($1/day).

While the prices of many agricultural commodities have shot-up recently, U.S. consumers have been largely shielded from the type of large price spikes seen in less developed countries where food is often purchased raw or unprocessed and where farmers have less access to agricultural technology and virtually no capacity to borrow. And, while many producers of food face steep price increases, less than 20 percent of food prices paid at the grocery store in the U.S. reflect the actual cost of raw ingredients; the rest of the price is attributed to costs such as labor, transportation, and packaging. However, products such as milk and eggs, which require little processing or packaging, have risen more rapidly because a greater percentage of their price reflects raw ingredient costs.

Although many Americans are feeling the effects of higher food prices, real income gains and real food price decreases over the past few decades have resulted in significant increases in food purchasing power. Although there has been a slight uptick recently in relative food prices (the amount of food that can be purchased with an hour's worth of wages), relative food prices are still historically low.

Mr. Chairman, I look forward to testimony from our witnesses. I am particularly interested in their views on the causes for the recent spike in food prices and what we can do. I know some experts like to point to the trade policies of other nations as well as rising demand in nation's with increasing standards of living. Others like to point to bio-fuels policies that the United States and others nations have implemented.

I can understand both sides of the ethanol issue. On the one hand, the increased demand for corn benefits my Kansas corn farmers, while it negatively impacts my beef producers. Higher grain prices benefit Kansas farmers, but higher fuel costs deprive them of the benefit of higher prices. Obviously, there is no simple answer when the need for food, the need for cleaner burning fuels, and the need for greater supplies of energy intersect.

I want to thank each of our witnesses for taking the time to bring us their insights and suggestions. We need to understand how we can insure that there is an adequate and fairly priced food supply, farmers are paid a fair and profitable price for their products, and that other government policies do not unnecessarily distort the food market.

PREPARED STATEMENT OF JOSEPH GLAUBER, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. Chairman, members of the Committee, thank you for the opportunity to discuss recent developments and prospects for retail food prices. In 2007, the Consumer Price Index (CPI) for food in the U.S. increased by 4 percent. This was the largest annual increase in retail food prices since 1990. In 2008, the Department of Agriculture's Economic Research Service (ERS) projects retail food prices will increase by 4 to 5 percent. Several key factors are shaping the current situation, including domestic and global economic growth; global weather; rising input costs for energy; international export restrictions; and new product markets, particularly biofuels. I will describe recent developments in commodity markets, the effects on retail food prices, and the implications for food price inflation, family food expenditures, and domestic food assistance.

RECENT DEVELOPMENTS IN COMMODITY MARKETS

Higher commodity prices are contributing to the increase in food price inflation, even though, on average, the farm value accounts for only about 20 cents of each dollar spent on food. For highly processed foods, such as cereal and bakery products, the farm component of the retail value is less as processing costs account for a higher portion of the retail value. In contrast, food products that undergo little processing prior to being consumed, such as eggs and fresh fruits and vegetables, the farm value accounts for a much larger share of the retail value.

The index of prices received by farmers for all products increased by 18 percent in 2007, as farm prices for several major crops, beef, milk, broilers, and eggs either reached new record highs or posted large annual gains. Compared to 1 year ago, the index of prices received by farmers for all products was up 15 percent during the first quarter of 2008. During the first quarter of 2008, the prices received for all crops were up 20 percent, reflecting continued strong prices for major crops. Meanwhile, the prices received for livestock and livestock products, while up 10 percent during the first quarter compared to 1 year ago, have moderated in recent months as record large supplies of red meat and poultry have lowered farm prices for cattle and hogs.

Wheat & Coarse Grains: The CPI for cereal and bakery products increased 4.4 percent in 2007, and is projected to rise 7.5–8.5 percent in 2008. The increase in the CPI for cereal and bakery products reflects higher prices for wheat, rice, corn, and other grains as well as higher marketing costs.

In marketing year 2007/08, domestic food use is projected to account for nearly two-thirds of U.S. rice production, slightly less than 50 percent of U.S. wheat production, and about 10 percent of U.S. corn production. The remaining uses of wheat, rice, and corn include feed use, seed use, industrial use, primarily biofuels, and exports. All of these different uses form the demand for these commodities along with production, imports, and beginning and ending stocks to determine the farm prices of wheat, rice, and corn.

The 2007/08 *wheat* market reflects a third straight year in which global production has fallen short of consumption, driving expected world stocks to their lowest level in 30 years. Back-to-back years of lower production in the major exporting countries, including Australia, Canada, and the European Union have combined with below-trend yields in the United States to reduce the availability of exportable supplies. Tight supplies in competitor countries and restrictions on exports in major producing countries such as Argentina, Ukraine, and Russia have boosted export demand for U.S. wheat. U.S. ending stocks are projected at their lowest level in 60 years. As a consequence, wheat prices have increased to record levels. Farm prices for 2007/08 are projected at a record $6.55–$6.75 per bushel, sharply higher than last year's $4.26 and the previous record of $4.55 per bushel.

Wheat producers indicated in March they intend to plant 63.8 million acres in 2008, up 6 percent from 2007. Yield prospects for the 2008 crop remain mostly favorable, but persistent dryness remains a concern in the southwestern portions of the hard red winter wheat belt in western Kansas and the panhandle areas of Texas and Oklahoma. In addition to higher production in the U.S., wheat production in other major wheat producing countries is expected to rise sharply as planted area is up around the world, spurred by record prices and encouraged by favorable fall sowing weather. If trend yields are achieved, world production could set a new record, rising as much as 50 million tons from 2007/08. Global production is expected to exceed global consumption for the first time in 4 years leading to some recovery in global wheat stocks. Nonetheless, the average farm price is projected to increase in 2008/09, supported by forward sales made at prices well above last year's level. Cash wheat prices during the first quarter of the marketing year are also expected to be supported by strong competition between domestic mills and foreign buyers.

The U.S. *corn* market in 2007/08 is characterized by record production and farm prices driven by strong domestic and export demand, which is boosting use to record levels. U.S. producers planted 93.6 million acres to corn in 2007, the largest plantings since 1944. Domestic use for 2007/08 is estimated at a record 10.6 billion bushels, up 1.5 billion or 17 percent from last year. Ethanol use, projected at 3.1 billion bushels, is expected to surpass exports for the first time ever, accounting for 24 percent of total corn use. Despite high prices, export demand remains strong with growing world demand for animal protein and tight supplies of feed quality wheat, particularly in the European,Union. Exports are projected at a record 2.5 billion bushels, up 18 percent from last year. The farm-level price of corn for 2007/08 is expected to average a record $4.10–4.50 per bushel, up substantially from $3.04 per bushel in 2006/07.

Corn prices are expected to rise again in 2008/09, with the Department releasing an official forecast on May 9. Demand is expected to remain strong, supported by expanding use for ethanol. Corn area and production are expected to be lower in 2008/09 as record soybean prices and high input costs for corn encourage a rebound in soybean plantings. Producers indicated in March they intend to plant 86.0 million acres of corn in 2008, down 8 percent from last year. In addition, cool, wet weather has slowed planting progress, which could also contribute to lower corn plantings in 2008. With higher use and lower production, ending stocks are expected to decline, keeping upward pressure on prices.

Rice: Tighter domestic rice supplies, higher global rice prices, and higher grain and oilseed prices have helped to boost rice prices in 2007/08. Producers in much of the South cut back on rice area in 2007 because they could earn higher returns by planting alternative crops such as wheat, corn, sorghum and soybeans. Exports in 2007/08 are projected to increase 23 percent to 112 million hundredweight (cwt). Larger exports are expected to markets in the Western Hemisphere, Europe, and the Middle East. Tight global supplies and self-imposed export bans in Egypt, Vietnam, and India are helping to support U.S. exports. Rice ending stocks are forecast at 21.6 million cwt, down from carry-in stocks of 39 million cwt. The season-average farm price is forecast at $12.05–$12.35 per cwt, up from $9.96 in 2006/07 and the highest since 1980/81. Rice prices in 2008/09 are expected to be higher than 2007/08 due to tighter domestic and global supplies and higher world prices.

Soybeans: The CPI for fats and oils increased 2.9 percent in 2007. In 2008, the CPI for fats and oils is expected to increase by 8–9 percent. The primary domestic oil in this CPI category is soybean oil. Strong soybean oil exports and increased use of soybean oil for biodiesel production have pushed up the price of soybean oil. In addition, higher transportation, labor, and other marketing costs are contributing to the increase in retail prices for fats and oils.

U.S. soybean prices are record high this year, reflecting lower production and strong demand. The farm price received for soybeans is expected to average $10.00–$10.50 per bushel during 2007/08, compared with $6.43 last marketing year and the previous record of $8.73 per bushel set in 1983/84. Lower production was brought about by sharply lower planted area as producers shifted some soybean acres to corn in 2007. Lower stocks are projected in part due to strong export demand for U.S. soybeans resulting from record imports by China and limited growth in South American supplies despite high prices.

U.S. soybean crush is also a contributing factor to declining stocks as foreign demand for U.S. soybean meal remains exceptionally strong. Wheat shortages in many parts of the world are leading to strong export demand for soybean meal protein which can be used to replace wheat in feed rations. Soybean crush is also supported by growing demand for biodiesel, production of which is expected to account for 14 percent of total soybean oil use for 2007/08. The prices of both soybean meal and soybean oil are up sharply in 2007/08. The price of soybean meal is projected to average $315–$335 per ton in 2007/08, up from $205 per ton in 2006/07 and the price of soybean oil is projected to average 50–54 cents per pound, compared with 31 cents per pound in 2006/07.

U.S. producers indicated in March they intend to plant 74.8 million acres to soybeans in 2008, up 18 percent from last year. If these intentions are realized, soybean supplies for 2008/09 could increase as larger production more than offsets sharply lower beginning stocks. Reflecting the increase in projected soybean production, soybean ending stocks are expected to rebound in 2008/09 from this year's very low level. Forward sales at prices above last year's average and high corn prices are likely to push soybean prices higher in 2008/09.

Fruits and Vegetables: Retail prices for fruits and vegetables increased 3.8 percent in 2007, as fresh fruit and vegetable prices rose by 3.9 percent and processed fruit and vegetable prices rose by 3.6 percent. Price spikes in these commodities are often linked to drought or freeze damage. In 2008, the CPI for fruits and vegetables is projected to increase by 3–4 percent.

Livestock and Poultry: The CPI for meat, poultry and fish increased by 3.8 percent in 2007 and is forecast to increase by 2–3 percent in 2008. In 2007, prices were particularly strong for cattle and broilers. These strong prices generally reflected production adjustments made prior to the recent increase in feed costs. U.S. production of meat and poultry is expected to be a record 94 billion pounds in 2008. This large supply of meat is expected to limit gains in prices for cattle, hogs, broilers, and turkeys in 2008. In addition, the demand for red meat and poultry could be affected by consumers' economic concerns.

Beef production is currently forecast to increase by 0.6 percent in 2008 due to continued strong cow slaughter. Drought conditions in the Southeast led to strong increases in cow slaughter last year and, even with a return to normal weather in 2008, cow slaughter is expected to remain relatively high in 2008. The January *Cattle* report indicated the cow herd continued to contract during 2007. Beef cow numbers were estimated about 0.6 percent lower than a year ago, and the number of beef cows expected to calve was down 1 percent. In addition, the number of beef heifers to be retained for the breeding herd was down 3.5 percent. Nebraska Direct steer prices averaged a record $91.82 per cwt in 2007 but are expected to decline slightly in 2008 to average $88–$92 per cwt.

Pork production in 2008 is expected to increase 7 percent due to expansion triggered by positive returns to producers in 2006 and 2007 and strong productivity gains. However, the growth in production is expected to slow later in the year as producers respond to much higher feed costs. The most recent *Quarterly Hogs and Pigs* report indicated that producers farrowed 5 percent more sows during December 2007–February 2008, but intend to farrow 2 percent fewer sows during June 2008–August 2008. The strong increase in pork production has pressured hog prices in recent months. In 2008, hog prices are expected to decline from 2007's $47.09 per cwt to $40–42 per cwt.

Broiler producers reacted to low returns in 2006 and pulled back broiler production during the last two quarters of 2006 and the first two quarters of 2007. As broiler prices hit record levels in mid-2007, broiler producers responded by expanding production. Since last fall, weekly estimates of chicks placed for growout were consistently 3 to 5 percent above a year earlier, but the increase in placements has dropped below 3 percent in recent weeks. However, little to no expansion in broiler production is expected during the second half of 2008 as producers respond to higher corn and soybean meal prices. Broiler prices for 2008 are forecast to average 78 to 82 cents per pound in 2008, compared with a record 76.4 cents in 2007.

U.S. red meat and poultry exports are expected to reach a record 12 billion pounds in 2008. Pork exports are again forecast to lead the way, increasing for the 18th consecutive year to 3.7 billion pounds carcass weight, which is equal to 16 percent of production.

In 2007, broiler exports recovered from a couple of years of sluggish sales and reached a record 5.8 billion pounds on strong sales to Canada, China, and Russia. Broiler exports are expected to increase to 6.0 billion pounds in 2008. Beef exports are expected to increase to about 1.5 billion pounds in 2008, still well below the 2003 pre-bovine spongiform encephalopathy level of 2.5 billion pounds. A variety of markets expanded access to U.S. beef recently, but beef exports are still hampered by Japan's age limits on imported beef from the United States and other continuing restrictions on foreign markets.

Eggs: The CPI for eggs rose by 29 percent in 2007 and projected to increase by 3–4 percent in 2008. In 2007, table-egg producers cut production. The decision to reduce production likely took place prior to the recent run-up in feed costs.

In 2007, the wholesale price for a dozen grade A large eggs in the New York market averaged $1.14 per dozen, 43 cents higher than the previous year. The strong increase in egg prices reflected lower production and strong domestic demand. In 2007, table-egg production was down 1 percent, as producers lowered production in order to increase the hatching-egg flock.

Given the current size of the table-egg flock and the number of birds available to add to the flock, no significant expansion in production is expected before the second-half of 2008. Wholesale table-egg prices (New York area) averaged $1.59 per dozen in the first-quarter, up 51 percent from the previous year. Prices are expected to decline seasonally in the second quarter and average $1.25–$1.32 per dozen in 2008.

Milk: The CPI for dairy products increased by 7.4 percent in 2007 and is projected to increase by 3–4 percent in 2008. Very strong international dairy product prices, robust domestic demand and modest expansion in domestic production in response to very low milk prices in 2006 were the primary factors pushing up dairy product prices in 2007. The recent increase in feed costs probably had only a minimal effect on milk production in 2007.

Although higher feed costs are expected to temper later-year expansion plans, milk producers are expanding herds in response to generally favorable returns during much of 2007. Production in 2007 increased about 2 percent as the herd increased fractionally. Milk per cow increased but lagged its historical growth. Driven by strong domestic demand and sharply higher international prices in response to declining milk production in Australia due to drought and limited surpluses of dairy products in the European Union, the all-milk price averaged a record $19.13 per cwt, over $6.00 above 2006. Cow numbers are expected to increase further in 2008 but high feed costs may slow the growth in milk per cow. Milk production in 2008 is expected to increase 2.4 percent. Demand for dairy products, both domestically and for export, may lag production growth, resulting in weaker prices in 2008. The all-milk price for 2008 is forecast to decline to between $17.65 and $18.15 per cwt.

KEY FACTORS BEHIND THE INCREASE IN RETAIL FOOD PRICES

As the above discussion suggests, many factors have converged to increase commodity prices. I will now review some of these factors.

Global economic growth, weather problems in some major grain producing countries, and depreciation in the trade weighted-dollar helped boost fiscal year 2008 U.S. agricultural exports. In fiscal year 2008, the value of U.S. agricultural exports is projected to reach a record $101 billion, up from last year's record of $81.9 billion.

Global economic growth is boosting global demand for food. Real foreign economic growth declined in 2007 to 4.0 percent from 2006's robust rate of 4.2 percent. Foreign economic growth is expected to be 3.9 percent in 2008, down slightly from 2007, but well above trend, as has been the case beginning in 2004 (ERS). Asia, excluding Japan, will likely grow at over 7 percent in 2008, above trend for the fifth consecutive year. Higher incomes are increasing the demand for processed foods and meat in rapidly growing developing countries, such as India and China. These shifts in diets are leading to major changes in international trade. For example, China's corn exports are projected to fall from 5.3 million metric tons in 2006/07 to 0.5 million metric tons in 2007/08, as more corn is used for domestic livestock feeding.

Agricultural production depends on the *weather*. The multi-year drought in Australia reduced wheat and milk production and that country's exportable supplies of those commodities. Drought and dry weather have also adversely affected grain production in Canada, Ukraine, European Union, and the United States. Thus, weather events have helped to deplete world grain stocks. With world stocks for wheat at a 30-year low, grain importers are increasingly turning to the U.S. for supplies. Furthermore, the tight stocks situation is leading to increasing concerns that prices could move sharply higher if this year's harvest falls below expectations. These concerns are causing some importers to purchase for future needs, pushing prices higher.

Many exporting countries have put in place *export restrictions* in an effort to reduce domestic food price inflation. The United Nations FAO recently noted the cereal import bill of the world's poorest countries is forecast to rise by 56 percent in 2007/2008, which comes after a significant increase of 37 percent in 2006/2007. Exporting countries as diverse as Argentina, China, India, Russia, Ukraine, Kazakhstan, and Vietnam have placed additional taxes or restrictions on exports of grains, rice, oilseeds, and other products. By reducing supplies available for world commerce, these actions only exacerbate the surge in global commodity prices. Export restrictions are ultimately self-defeating, reducing the incentives for producers to increase production.

Higher *food marketing, transportation, and processing costs* are also contributing to the increase in retail food prices. Record prices for diesel fuel, gasoline, natural gas, and other forms of energy affect costs throughout the food production and marketing chain. Higher energy prices increase producers' expenditures for fertilizer, chemicals, fuel, and oil driving up farm production costs. Higher energy prices also increase food processing, marketing, and retailing costs. These higher costs, especially if maintained over a long period, tend to be passed on to consumers in the form of higher retail prices. ERS estimates direct energy and transportation costs account for 7.5 percent of the overall average retail food dollar. This suggests that for every 10 percent increase in energy costs, the retail food prices could increase by as much as 0.75 percent if fully passed on to consumers.

In recent years, the conversion of corn and soybean oil into *biofuels* has been an important factor shaping major crop markets. The amount of corn converted into ethanol and soybean oil converted into biodiesel nearly doubled from 2005/06 to 2007/08. The growth in biofuels production has coincided with rising prices for corn, soybeans, soybean meal, and soybean oil. From 2005/06 to 2007/08, the farm price of corn more than doubled and the price of soybeans nearly doubled.

While much of the increase in the farm prices for corn and soybeans can be attributed to increased biofuels production, other factors have also contributed to the sharp increase in prices for these commodities. The strength in exports resulting from global economic growth and drought and dry weather in some major grain producing countries has boosted prices for corn and soybeans. For example, corn exports are projected to reach 2.5 billion bushels in 2007/08, up from 2.1 billion bushels in 2005/06, and soybean exports are projected to increase by 14 percent over the same period.

The recent increase in corn and soybean prices appears to have little to do with the run-up in prices of wheat and rice prices. Corn and soybean prices began increasing during the fourth quarter of 2006. By this time, producers had already planted the 2007 winter wheat crop. Rice and spring wheat plantings could have been affected by increasing corn and soybean prices but weather problems, low stocks, and strong global demand likely had a much greater impact on wheat and rice prices than increasing corn and soybean prices. In 2008, U.S. wheat producers indicate they intend to plant more acreage to wheat while rice acreage is projected to remain flat, suggesting that higher corn and soybean prices have not greatly altered wheat and rice producers' planting decisions.

It is unlikely that retail prices for milk, meat, poultry, and eggs were greatly affected by higher corn and soybean prices in 2007. Higher corn and soybean prices increase livestock and dairy producers' feed costs. The increase in feed costs, with no offsetting increase in livestock prices, reduces livestock producers' margins. Livestock producers react to these lower margins over time by reducing the breeding herd. In the short term, higher feed costs lead to an increase in livestock slaughter and lower livestock prices. For milk and eggs, higher feed costs may have lowered production somewhat 2007, partially contributing to the increase in retail prices for these food products. However, as pointed out earlier, other factors (weather, low returns, strong demand, etc.) contributed to the bulk of the increase in retail food prices for these commodities in 2007.

In 2008, higher feed costs are likely to lead to lower prices for livestock as producers react to higher feed costs by reducing the number of breeding animals. In contrast, dairy producers react to higher feed costs by cutting back on the number of dairy cows and adjusting rations. In 2008, higher feed costs are expected to dampen the growth in milk production per cow but the dairy herd is expected to continue to expand in response to strong milk returns in 2007.

RETAIL FOOD PRICE REVIEW AND OUTLOOK

There is a cyclical pattern to retail food price inflation. For example, in 2000, we were experiencing year over year monthly increases in the all food price index of 1.5 to 2.5 percent. During 2001 and early 2002, the year over year monthly increases in the all food price index ranged from 2.5 to 3.5 percent before falling to 1.0 to 1.5 percent by mid 2002 through mid 2003. In the middle of 2004, the all food price index increased by 4 percent before dropping to less than 2.5 percent by mid 2005. Our most recent increase in the rate of food price inflation began in early 2007. From March 2005 to March 2006, the all food price index increased by 2.6 percent. In contrast, the all food price index increased by 3.3 percent from March 2006 to March 2007 and from March 2007 to March 2008, the all food price index increased by over 4.5 percent.

The CPI for food away from home is projected to increase by 3.5 to 4.5 percent in 2008, slightly higher than the 3.6-percent increase in 2007. Prices for food away from home are largely determined by processing, transportation, and marketing costs which are subject to volatile energy costs and trend inflation.

The CPI for food at home is projected to increase by 4 to 5 percent in 2008 compared to 4.2 percent in 2007. While the forecasted change in the price for food at home in 2008 is similar to 2007, the food categories contributing to food price inflation are different. In 2007, the retail price of eggs increased 29 percent, retail dairy product prices rose by over 7 percent and the retail price of poultry posted a more than 5 percent gain. These three product categories accounted for over 35 percent of the annual increase in the CPI for food at home. In addition, retail prices for beef, pork, cereal and bakery products, and nonalcoholic beverages increased by nearly 4 percent or more in 2007.

In 2008, retail prices for only three product categories are projected to increase by 4 percent or more. These product categories include: fats and oils up 8 to 9 percent, cereals and bakery products up 7.5 to 8.5 percent, and nonalcoholic beverages up 3.5 to 4.5 percent. In total, cereal and bakery products, fats and oils, and nonalcoholic beverages have a weight of 16 percent in the all food CPI and 28 percent in the food at home CPI.

Higher corn and soybean prices have contributed to increases in the retail prices of cereal and bakery products and fats and oils. In addition, higher corn prices have increased the price of high fructose corn syrup, an ingredient in soft drinks and many other products. In 2007, the CPI for these three retail food product categories increased, on average, by 4.1 percent and is projected to increase by 6.3 percent in 2008. If we assume a normal price increase in these three retail product categories of 2.5 percent, the food at home CPI would have been about 0.4–0.5 percentage points lower in 2007 and the forecast for 2008 would be about 1 percentage point lower. These figures overstate the contribution of higher corn and soybean prices to the CPI for food at home, since higher prices for other commodities may also be contributing to above average increases in retail prices for cereal and bakery products, fats and oils, and nonalcoholic beverages.

The Department's current long-term projections indicate that retail food price inflation will gradually moderate over the next several years. Continued expansion of biofuels production will likely maintain corn and soybean prices at historically high levels and livestock producers will adjust to the increase in feed costs by reducing production, leading to higher retail prices for beef and pork in the longer term. In contrast, future upward movements in retail dairy product prices may be limited following the strong increase in 2007. In addition, global agricultural production is expected to rebound, especially for wheat, relieving some of the pressure on retail food prices for cereal and bakery products. Of course, future increases in retail food prices depend heavily on energy prices and other food marketing costs.

IMPACTS ON CONSUMERS

In 2006, consumers spent $551 billion on food consumed at home, almost 6 percent of their total disposable personal income. They spent an additional $396 billion, about 4 percent of their disposable personal income, on food consumed away from home. In total, consumers spent almost $950 billion, almost 10 percent of their disposable personal income on food in 2006.

More important than the overall impact higher food prices may have on the share of income allocated for food expenditures are the distributional impacts of higher food prices. While consumers, on average, may spend only 10 percent of their disposable income on food, families with less than $20,000 in income spend over 20 percent of their after-tax income on food. Thus, a 4-percent increase in retail food prices would increase the share of income spent on food for families with less than $20,000 in income by about 1 percentage point.

IMPACTS ON DOMESTIC FOOD PROGRAMS

The Department's food programs, including the Food Stamp Program, the WIC program, child nutrition programs, and purchases for food banks and food pantries, are affected by higher retail food prices. The Department is monitoring the programs closely, and at a recent Senate Appropriations hearing, Secretary Schafer outlined the Department's budget requests for these programs, which take higher food prices into account.

Higher food prices are driving up costs of the Food Stamp Program, which is managed based on the value of the "Thrifty Food Plan," a low-cost market basket of foods that provides a diet consistent with dietary guidelines. Food Stamp Program benefits are indexed to annual changes in the cost of the Thrifty Food Plan. Higher food costs will increase the average benefit, adding to program costs. In addition, the slowdown in the U.S. economy could increase program participation. Therefore, the Department has requested an additional $1.8 billion for the Food Stamp Program for fiscal year 2009.

Unlike the Food Stamp Program, the WIC program is discretionary and spending depends on annual appropriations. WIC costs go up when food prices go up, regardless of the cause. If food costs go up and there is no corresponding increase in appropriations, program participation is adversely affected. WIC costs jumped in 2007 due to strong increases in retail prices for dairy products and eggs and are running higher each month in 2008 than in the same month in 2007. The Department has requested $6.1 billion for WIC for fiscal year 2009, the highest request ever.

Federal payments for school breakfasts and lunches are indexed every July to food-price changes reflected in the "Food Away From Home" component of the CPI over the 12-month period ending each May. The increases in the index have resulted in annual increases in program costs of about 3 percent in recent years.

There have also been concerns expressed about the Department's funding for purchases of commodities for The Emergency Food Assistance Program (TEFAP). Recently, The Department implemented a "Stocks-for-Food" initiative, whereby the Department barters Government-owned commodities such as wheat, corn, and soybeans for processed foods suitable for distribution in domestic and international food programs. States are distributing these products, such as canned vegetables, vegetable oils, peanut butter, and canned meats, to thousands of local agencies, including food banks, soup kitchens and food pantries. The donated food products can supplement millions of meals for low income Americans.

CONCLUSION

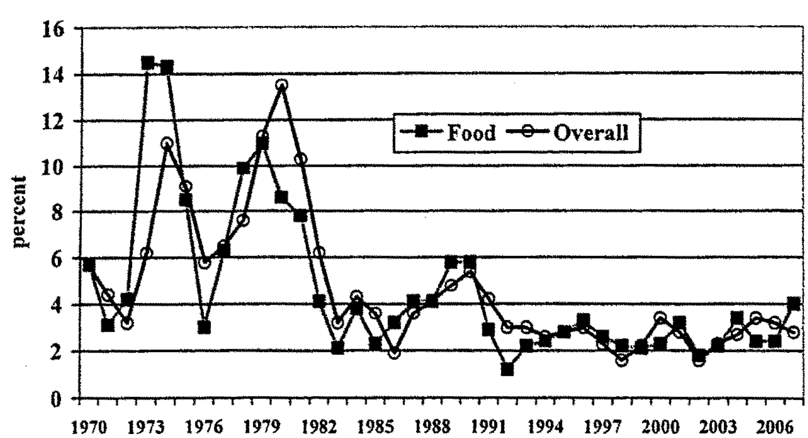
Futures market prices suggest that grain and oilseed prices will remain high over the next few years. The rapid expansion of biofuel production, high input costs, and strong foreign demand will continue to play a major driving force in U.S. and world agriculture. Yield growth and supply response both in the U.S. and abroad will help moderate crop prices in the long run, but for the near term, tight supplies will keep markets volatile with much attention paid to growing conditions worldwide.

Mr. Chairman, that completes my statement.

Farm Prices for Crops, Livestock, and Livestock Products, 2006–08

	2006	2007	2008F
Livestock:			
Steers ($/cwt)	85.41	91.82	88–92
Hogs ($/cwt)	47.26	47.09	40–42
Broilers ($/cwt)	64.4	76.4	78–82
Milk ($/cwt)	12.97	19.13	17.65–18.15
Eggs (cents/doz)	71.8	114.4	125–132
Crops:	2005/06	2006/07	2007/08F
Wheat ($/bu)	3.42	4.26	6.55–6.75
Rice ($/cwt)	7.65	9.96	12.05–12.35
Corn ($/bu)	2.00	3.04	4.10–4.50
Soybeans ($/bu)	5.66	6.43	10.00–10.50
Soybean Oil (cents/lb)	23.41	31.02	50.00–54.00

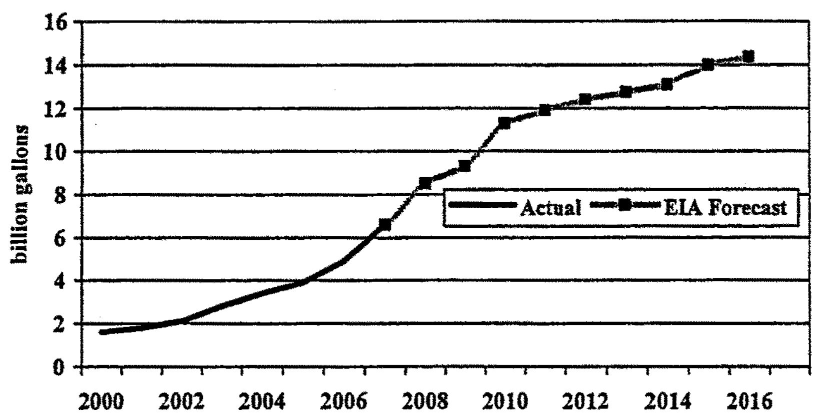
Annual Percentage Change in the CPI for All Food and All Items, 1970-2007.



Changes in Retail Food Price Indexes, 2006, 2007, and 2008 Forecast

	Relative Importance	2006	2007	Forecast 2008
All food	100.0	2.4	4.0	4.0 to 5.0
Food away from home	44.6	3.1	3.6	3.5 to 4.5
Food at home	55.4	1.7	4.2	4.0 to 5.0
Meats, poultry, fish	12.2	0.8	3.8	2.0 to 3.0
Eggs	0.9	4.9	29.2	3.0 to 4.0
Dairy products	6.4	−0.6	7.4	3.0 to 4.0
Fats and oils	1.5	0.2	2.9	8.0 to 9.0
Fruits and vegetables	8.4	4.8	3.8	3.0 to 4.0
Sugar and sweets	2.0	3.8	3.1	3.0 to 4.0
Cereals and bakery products	7.4	1.8	4.4	7.5 to 8.5
Nonalcoholic beverages	6.7	2.0	4.1	3.5 to 4.5
Other foods	9.9	1.4	1.8	2.5 to 3.5

Actual and Department of Energy, Energy Information Agency, Forecast of Corn-Based Ethanol Production, 2000-16.



Food Spending by Income Class, 2006

Income Category	Income after taxes	Food at home	Food away from home	Total Food Expenditure	Total Food Expenditures
	$ per consumer unit	$ per consumer unit	$ per consumer unit	$ per consumer unit	% of income after taxes
All	58,101	3,417	$2,694	$6,111	10.5
Less than $5,000	316	1,802	1,246	3,049	na
$5,000 to $9,999	8,019	1,894	966	2,860	35.7
$10,000 to $14,999	12,630	2,159	940	3,099	24.5
$15,000 to $19,999	17,411	2,476	1,155	3,631	20.9
$20,000 to $29,999	24,743	2,605	1,531	4,136	16.7
$30,000 to $39,999	33,916	2,719	1,970	4,689	13.8
$40,000 to $49,999	43,573	3,061	2,269	5,330	12.2
$50,000 to $69,999	57,358	3,603	2,892	6,496	11.3
$70,000 and more	119,298	4,798	4,502	9,300	7.8

Source: U.S. Department of Labor. Bureau of Labor Statistics. Consumer Expenditure Survey.

Testimony for the Joint Economic Committee

May 1, 2008

INTRODUCTION

Good Morning Mr. Chairman and Members of the Joint Economic Committee. I am George Braley, Senior Vice President of Government Relations and Public Policy for America's Second Harvest-the Nation's Food Bank Network. Our network consists of 205 Food Banks serving all 50 states, Puerto Rico and the District of Columbia. Over 50,000 charitable agencies receive food from our food banks and they in turn provide food assistance for over 25 million low-income Americans each year.

Thank you for holding this important hearing and for the opportunity to speak with you today about the impact of rising food prices on the millions of Americans who face hunger each day.

I also want to thank you, Senator Schumer, for your work on S. 2420, the Federal Food Donation Act of 2007. This bill, which would encourage executive agencies to donate excess food to nonprofit organizations providing food assistance, demonstrates the type of creativity and partnership that will be necessary to proactively meet the growing need.

Actions like yours, Senator Schumer, come at a critical time. Our food banks are confronted by three major challenges, any of which would be very hard to deal with, but together have created a true crisis. Over the past several years, our food banks have experienced: (1) substantially reduced donations of federally purchased commodities; (2) a rise in the number of people seeking emergency food because of the declining economy, and (3) more recently, rapidly rising food prices that are seriously undermining our ability to serve the increasing numbers of hungry people coming to us for help. Quite simply, our network is overwhelmed.

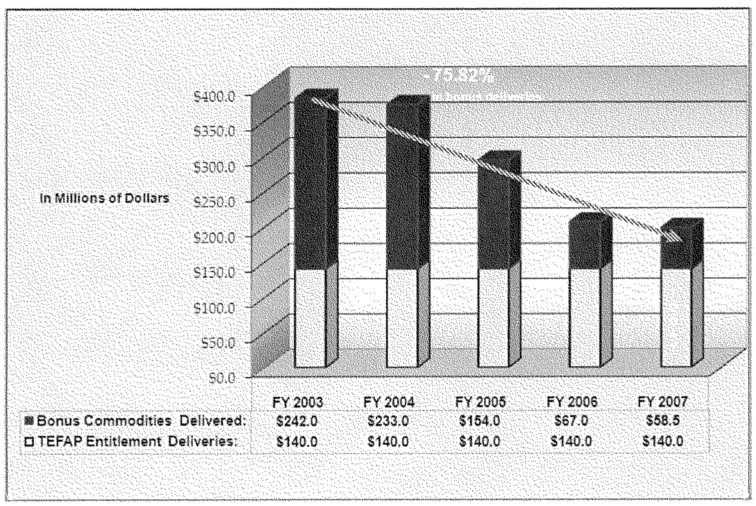
Let me briefly address each of these issues.

GOVERNMENT FOOD SUPPLIES

When the last Farm Bill was enacted in 2002, mandatory funding for the Emergency Food Assistance Program (TEFAP) was frozen at $140 million per year. At that time, we expected to be able to meet the demand presented by hungry Americans because of the high levels of surplus commodity donations acquired by the government to stabilize agricultural markets.

As can be seen by the following chart, this expectation was short-lived.

TEFAP Commodities Delivered FY 2003-2007



In FY 2003, surplus commodity donations totaled $242 million in value. In the subsequent years, as farm prices began to rise, these surplus food donations began to drop significantly, reaching a low of just $58.5 million in value last year. This represents a drop in federal commodity support of $184 million in JUST four short years.

The substantial loss of federal commodity support was further exacerbated by the reduction in purchasing power that is accompanied by inflation.

Even before the economy's downturn, these losses placed extraordinary demands on our food banks and are the reason why we have been pressing for a strong nutrition title in the pending farm bill. We have advocated for increases in benefit levels and eligibility for the food stamp program, and an increased level of support for commodity donation programs – notably, the Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP).

Food banks strive to secure food from a variety of sources, including corporate donors and individual givers, as well as through federal and state channels. TEFAP products constitute some of the most nutritious and popular products received by the low income families we serve and are especially essential for many rural food banks. With unpredictable government surplus donations due to rising farm prices and the inflationary erosion of recent years, it is imperative that the farm bill now pending in Congress include both an increase in mandatory funding for TEFAP ($250 million beginning in FY2008) and automatic annual inflation adjustments.

The inclusion of an inflation adjustment is especially important now since food price inflation is higher than it has been in decades and is predicted to continue for some time.

I am heartened by the inclusion in both the House and Senate passed versions of the Farm Bill of $250 million for mandatory TEFAP funding and hopeful that the House-passed bill provision containing critically needed annual inflation adjustments will prevail in Conference. The current economic climate and its devastating impact on many Americans who are less than a paycheck away from hunger surely proves the wisdom of building in some protection from the worst effects of food price inflation.

I am also heartened to hear that discussions are underway about a second economic stimulus package have included funding for food stamps and emergency feeding assistance. A quick infusion of federal funding to help many economically distressed Americans not only can reduce their risk of hunger, but it can also quickly stimulate the economy. Additional food stamp benefits move quickly and efficiently through the economy because we know these will be spent. Along with additional food commodities distributed through food banks and community feeding organizations, this additional food assistance can free up limited resources that families desperately need to pay for rising housing, energy, and other living costs.

EFFECTS OF THE RECESSION

During the recent economic downturn, the number of people seeking food assistance has risen. I look at participation trends in the food stamp program as an indicator of need for emergency food assistance as well. Many people receive help from a food bank, food pantry or other community feeding organization before they become eligible for, or seek assistance through, the food stamp program.

Food Stamp program participation has been rising for several years. But in just the last year, the program has grown by 1.3 million people. That means that 1.3 million more people, with net incomes below the poverty line, have joined the food stamp program. Food stamp program participation is approaching an all time high, yet we know that only 65% of those eligible for the program participate nationwide, and among those that do, many run out of food in the third week of their benefit period. Among our clients who receive food stamp benefits, they report that, on average, their benefits last 2.5 weeks out of the month. Our charitable network serves many of the food stamp clients both before and while they are receiving food stamp benefits.

Our food banks and agencies are currently reporting difficulties with both supply and demand issues. A survey conducted of food banks that provide services in the States and Districts of the Members of this Committee, found that 100% of respondents stated that they're seeing more clients. In fact, on average, those food banks report an increase in demand of between 15%-20% over the past year.

Sadly, our Members must make difficult choices when faced with crisis. 83% of the food banks responded that they are not able to adequately meet the needs of their community without having to adjust the amount of food or their operations. One food bank reports, "Short term, we are limiting the amount of food we can provide agencies. Agencies are limiting the amount of food they provide families." This operation is not alone. Of those who stated that they could not meet demand, 37% have already, or are considering, reducing the amount of food offered at the food bank. Even more food banks (43%) have reduced, or are considering reducing, the variety of foods offered to agencies.

FOOD PRICE INFLATION

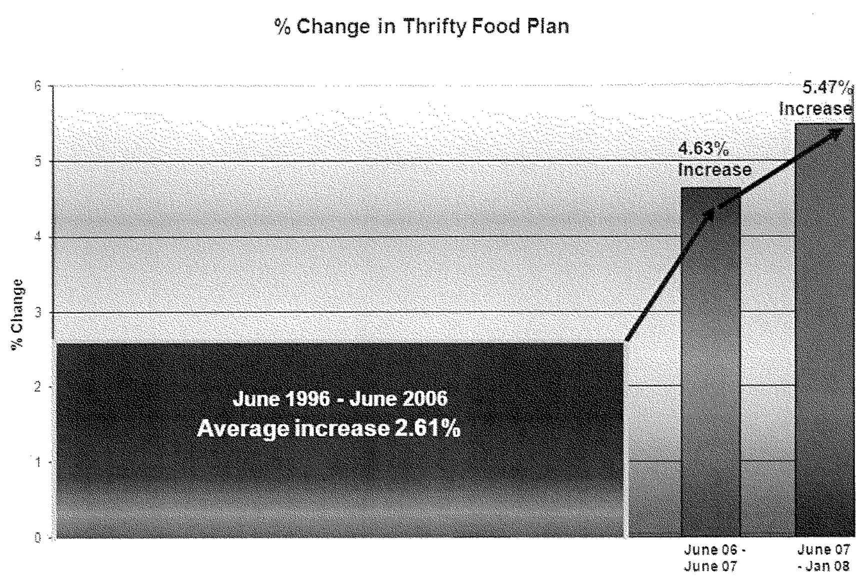
This leads to the third problem we are facing - that is, food price inflation and its effect on the need for emergency food assistance. One cannot address the issue of food price inflation without first recognizing that the rising costs of other essentials are also contributing to the economic distress of working poor and lower-income families. Too many families and individuals are having to make trade-offs between paying for the increased cost of getting to work, the cost of heating their home, the cost of health care and prescriptions. Housing costs and the current mortgage crisis contribute to this burden as well. When work expenses, heating, housing and medical costs rise, families too often lessen their spending on food. For many poor families, this means running out of food stamps more quickly and having less money to make up the difference. It also can mean increasing their reliance on family, friends, and local emergency feeding agencies. In our survey of food banks represented by Members of this Committee, we found that 90% report that the increase in demand that they are witnessing is a direct result of a rise in food prices.

But it is not only the poor and near poor who are suffering. There was a news story on CNN a couple of weeks ago about a young mother who had recently lost her $70,000 a year job. She couldn't pay her mortgage and she couldn't cover her other expenses so she moved back in with her mother. She was getting food assistance and referrals to other available support at one of our food banks. The point is that when people are struggling to pay their other expenses, there is not enough money or food stamps left to adequately feed their families.

In many cases, the new clients accessing our Network are working people who never thought that they would have trouble making ends meet. As one food banker in Mineola, NY notes: "The middle class is accessing food from our agencies". Another food banker noted that "We are seeing people standing in our food lines who have never stood in food lines before".

Terri Drefke of the Food Bank of the Rio Grande Valley in Texas says that she is seeing an increase in working families. Mark Quandt at the Regional Food Bank of Northeastern New York agrees: "Agencies are telling us they are serving more people and more 'non-traditional' clients."

This chart demonstrates how rising food price inflation has impacted the food stamp program:



Food Stamp allotments are adjusted annually in October based on June prices for a market basket of foods called the "Thrifty Food Plan". Each year, inflation erodes the purchasing power of food stamps, but in times when inflation is relatively low the impact is less.

During the decade from 1996 to 2006 annual food price inflation averaged 2.61 percent. The increase in the cost of the Thrifty Food Plan last year was 4.63 percent. Of even greater concern is that between June of 2007 and January of 2008 food prices as reflected in the cost of the Thrifty Food Plan rose by 5.47 percent and at that time there were nine more months before people relying on food stamps would see an increase in their food stamp benefits.

What does this mean to families that rely on food stamps? First, even in times of low inflation families run out of food stamps and cash resources before the end of the month. Today, in a period of rapid inflation, people run out of food stamps even sooner and many people turn to emergency food programs in their community such as food pantries supplied by our food banks.

Unfortunately, when they turn to those resources today, they are finding less help than usual and much less help than they need.

WHAT IS NEEDED

First and foremost, the Congress and the President need to complete their work on the Farm Bill. This legislation will replace a significant portion of the support from the federal government that has disappeared since the last Farm Bill. The Farm Bill will also make significant improvements in the benefit levels in the food stamp program by making long needed updates in the structure of the program.

However, as I suggested at the beginning of my testimony, these changes address program issues that existed prior to the recession and the rapid rise in food prices. In the case of the Emergency Food Assistance Program, the Farm Bill helps significantly in replacing the reduced food supplies from the USDA, but it does not address the increased need for emergency food brought on by the demands of a falling economy and rapid increases in food prices.

In addition to the farm bill improvements, we need to quickly replenish our food banks to meet the needs of some 35 million Americans who face hunger – as well as those being added to this statistic because of the declining economy and inflation. An additional $100 million in emergency funding is needed immediately. A poor economy affects everyone, but its greatest harm falls to those who have limited resources to cushion the impact.

Future need for emergency funding should be based on the performance of the economy and food price inflation. If the economy continues to founder and food price inflation continues at an accelerated pace, then there will continue to be a need for additional emergency funding for TEFAP next year and beyond.

Thank you again Mr. Chairman and Committee Members, for allowing me to testify today. I will be pleased to try to answer any questions that you may have for me.

America's
Second Harvest
The Nation's
Food Bank Network

SUMMARY RESULTS OF JOINT ECONOMIC COMMITTEE SURVEY

Survey of food hunks in States and Districts of Members, conducted April 28 and 29, 2008. 38 food banks responded to the survey.

PRELIMIMAY RESULTS:

- 100 percent of food bank respondents stated that they have experienced an increase in the number of clients served within the past year. Food banks cite as contributing factors:
  - 90% the rising cost of food
  - 90% the rising cost of fuel
  - 29% the inadequacy of food stamps
  - 29% rising unemployment
  - 26% mortgage or rent issues
  - 24% rising underemployment

Economy, an increase in the number of mortgage foreclosures, a growing concern of rising unemployment, increase in proposed school taxes—pay high taxes for schools
Inflation. Cost of basic things. Affecting people on fixed incomes and low wage workers. Wages and fixed incomes have not kept pace with rising costs. A lot of people seeking help for the 1st time finding that they can't do it.
Rough winter, so heating costs have increased.
The cost of fuel, heating and food has skyrocketed. Cost of milk and eggs is up 35% – 40%. People are reaching a stretching point where things are starting to break.
We are seeing people standing in our food lines who have never stood in food lines before. Some of these people were from small donors. It is the rising cost of fuel and food that is pushing people to the economic edge. According to our last survey, 30% of the people we serve have never been to an agency before this year. To further that thought, if 30% or even 20% of people in food lines are new, we know we are going to serve them 5 – 6 times within the next 12 months.

- The increase in the number of clients is estimated at 15% to 20%.

(We are) hearing from agencies that they are seeing more clients and cannot make ends meet. People seeking assistance need to go to more than one agency.
(We've seen a) 6 percent increase as of Jan.
Agencies that (we) work with are reporting pretty dramatic increases in numbers from over a year ago. Reporting turning people away, running out of food. The Food Bank is having a hard time having enough food. Agencies taking more and receiving less.
More working families The client service has increased 39 percent from Jan. 07 to Jan. 08

Seeing more people call us directly. For example, (we) received a call from a professional consultant that asked about emergency food assistance because her clients had not paid her yet and she was concerned that she may possibly be in need of emergency food assistance. Seeing an increasing number of families and homeless asking about food assistance.
A lot of people are coming to agencies for the first time, who aren't regular clients.
(An increase of) 17 percent in the past 3 months

- 83% 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.
  - 37% 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 percent stated that their agencies already have or are considering reducing the amount of food offered to clients.
  - 43% of these food banks already have or are considering reducing the variety of food offered to agencies.
  - 23% of these food banks responded that some of their agencies already have or are considering reducing the number of new households they will serve.

Trying to meet need with purchased product, both food bank and agencies are having to purchase product
We haven't been able to continue to meet the need. Our distribution has dropped some. Doing really well fundraising but costs eating up the (sur)plus. (We are) not keeping up. Need to buy more food, but (the) money (is) not there and costs (are) up. These are very discouraging times.
Can't adjust the product even to meet the need. Pushing out food as soon as they get it. Might have to limit food at some point. Not meeting increased demand and doing our best to stay with current demand. Pantries and shelters have adjusted hours; (they) close early because (they are) out of food. Agencies cut in hours out of food for the rest of the month. Both Food Bank and agencies frozen.
We are in the midst of a Capitol Campaign to increase pounds distributed.
We are trying to run additional food drives, and we are looking at how to better acquire food more efficiently and effectively.
(We are playing a) "shell game" with the budget

PREPARED STATEMENT OF TOM BUIS, PRESIDENT, NATIONAL FARMERS UNION

Good morning, Mr. Chairman and members of the committee. I appreciate the opportunity to testify on behalf of the farm, ranch and rural members of National Farmers Union (NFU). NFU was founded in 1902 in Point, Texas, to help the family farmer address profitability issues and monopolistic practices while America was courting the Industrial Revolution. Today, with a membership of 250,000 farm and ranch families, NFU continues its original mission to protect and enhance the economic well-being and quality of life for family farmers and ranchers and their rural communities. We believe that consumers and producers can work together to promote a quality domestic supply of safe food.

I commend the committee for holding this hearing to gather information about the impact of food price increases, and also to explore the real reasons behind these increases. I hope the hearing will also serve to gather input on what steps can be taken to address the problem for the nation's citizens most in need. Yes, American families are impacted by higher food prices, some more than others. There is no doubt that higher food prices are having a tremendous impact on low-income families. Families without the resources to absorb food price increases are struggling to put dinner on the table; those below the poverty level and who do not make a livable wage are most impacted.

Food is not an optional commodity for anyone, regardless of income demographics. As a farmer from Indiana and a national farm leader, I find it appalling that anyone in America or the world goes to bed hungry. America's farmers and ranchers have almost always produced a surplus of food commodities year in and year out. For the most part, food price increases are not about the lack of production, but other macroeconomic factors including trade distortion, distribution and political decisions.

THE CAUSES OF HIGHER FOOD PRICES

Today's food price increases can be attributed to many factors; I will highlight a few within my testimony. While many like to blame the increases on biofuels, specifically corn ethanol, a closer examination will reveal that other factors beyond ethanol have played a greater role in higher food prices. While there is no doubt that corn ethanol has increased demand for corn, and thus boosted prices for corn and some other commodities, it is not the biggest reason for the retail food price increases. The more significant reasons are $120 per barrel of oil, the declining value of the U.S. dollar, increased demand from developing economies around the world, and worldwide weather related production shortages, especially in wheat.

Cause #1—Energy Prices

Studies have shown that energy costs have twice the impact on retail food prices as the price of corn. A recent report by John Urbanchuk of LECG reports that a one dollar increase in corn results in a 0.3 percent increase in the consumer price index for food, whereas a one dollar increase in gasoline results in a 0.6 percent increase for food. With the average food item traveling more than 1500 miles before reaching the final consumer, it is no wonder that food costs are increasing when looking back the last 7 years; gasoline prices have increased 198 percent per gallon, diesel fuel prices have increased almost 250 percent per gallon and crude oil has increased 453 percent according to the Department of Energy's Energy Information Agency. In response to the distance food travels, NFU has prioritized the Buy-Local/ Eat-Fresh food movement to encourage consumers to eat food from their back yard. That said, increased ethanol production is actually keeping gasoline prices from going even higher. A Merrill Lynch analyst estimates the biofuels industry is reducing gasoline price by 15 percent per gallon today. The U.S. average price per gallon would increase $0.50, from $3.39 to $3.89 today without biofuels.

Cause #2—Weather Related Production Shortfalls

In 2007, most major wheat growing regions experienced weather related production problems. The United States, Canada, Australia and Europe all experienced weather related production shortfalls at the same time. In response, wheat prices reached record levels and export demand skyrocketed, as world wheat stocks reached new lows. While some have blamed U.S. farmers for shifting wheat acreage to corn, it should be noted that very little U.S. wheat acreage is suitable for corn production. It takes more water to grow corn than wheat and most of the wheat acreage that could be converted to higher value commodities, such as corn or soybeans, long ago made the conversion. USDA's 2008 planting intentions indicate an increase in wheat acreage, as the higher prices are more economically favorable than other commodities.

Cause #3—Weak Dollar and Export Demand by Emerging Economies

Today, the U.S. dollar's value has fallen to a 30-year low, according to USDA, as compared with other major currencies, which in turn makes the price of U.S. commodities increasingly competitive abroad. Since the value of the dollar was delinked from gold, we have witnessed the linkage between a weak dollar and higher commodity prices. Last year we saw record agricultural exports in terms of volume and value despite record high market prices. Total agriculture exports in 2007 amounted to a record of nearly $90 billion, an increase of $20 billion over 2006. At the same time, the value of agricultural imports is rising, on average 10 percent growth per year since 2001 according to USDA. With rapidly growing economies across the globe, a new demand has been created for food commodities. The new middle class populations in Asia, Latin America and Africa have demanded an improved diet including meat and dairy products.

Cause #4—Speculators in the Commodity Markets

As opportunities to make profits have waned on Wall Street, with stocks and bonds in turmoil as a result of the mortgage crisis, investment firms seized opportunities in the commodity futures markets. Billions of dollars from pension and other investment houses poured into the hot commodity markets. As a result, many commercial entities of farm commodities have faced skyrocketing margin calls on hedge contracts which have for a long-time been a financial risk tool for farmers and grain elevators. As margin calls increase, local cooperatives and private grain elevators have hit credit limits, resulting in the elimination of this important marketing tool. The result, farmers cannot forward price their commodities and protect their risk. If farmers cannot capture higher commodity prices, while facing skyrocketing input expenses, we are facing a potential train wreck for rural America.

FOOD VS. FUEL

Yellow corn is the single biggest crop in the United States, and contrary to popular belief it is primary used for animal feed, not human food. No doubt, biofuels have increased farm commodity prices for corn as a result of increased demand. The increased demand for corn in 2007 resulted in, finally, profitable prices for farmers, after nearly two decades of below cost-of-production price levels. America's farmers responded to the increased demand by producing the biggest corn crop in history. In 2007, corn production in the United States increased by 2.6 billion bushels (from 10.7 billion in 2006 to 13.3 billion in 2007). Of this 2.6 billion bushel increase, new ethanol demand only accounted for 600 million bushels (4 percent). The total corn used for ethanol in 2007 amounted to 2.5 billion bushels. The remaining 2 billion new bushels of corn was used for feed, food and exports above and beyond 2006 levels, with record high corn exports of 2.9 billion bushels. The increased corn acreage primarily came at the expense of soybean acreage and to a smaller degree from cotton, rice and wheat. Simply put, America's farmers responded to the marketplace.

Recently, there seems to be a litany of corn ethanol criticism. In the past year, ethanol production was blamed for the Mexican tortilla shortage, despite the fact that tortillas are made from white corn, and trade agreements limit the United States from providing Mexico with no more than 2 percent of their white corn needs.

Corn ethanol was even blamed for the rising price of beer. Last year, right before the biggest American beer drinking holiday, the breweries announced they were raising beer prices because of increased ethanol production. That announcement made great headlines, but rice and barley make beer, not corn. Last week, when Costco and Sam's Club announced they were rationing bulk rice sales, the media was quick to blame corn ethanol, despite the fact that there is plenty of rice in the supply chain. The true cause for the run on rice turns out to be the shut off exports of two types of specialty rice from Thailand and India. There is ample rice, just limited amounts of these two specialty varieties.

Many in the media have mischaracterized the creation of a national mandate on renewable fuels as the cause of rising food costs. I was very disappointed to hear former President Clinton blaming the production of ethanol on pasta riots in Italy—two totally unrelated issues. I was also shocked to read Texas Governor Rick Perry's statement last Friday that called for a 50 percent waiver from the renewable fuels standard (RFS), with the expectation that consumers would find immediate relief from their grocery bills. Not only would reducing ethanol consumption by 50 percent result in higher gasoline prices for consumers, it would have no impact on lowering corn prices. According to an April 10, 2008 report issued by the Agricultural and Food Policy Center at Texas A&M University, "relaxing the RFS does not result in significantly lower corn prices." The report goes on to state the current ethanol production infrastructure has grown in excess of the RFS and relaxing the standard would not cause a contraction in the industry. The A&M study also reiterated the point that corn prices have had little to do with rising food costs. Staple food items such as bread, milk and eggs have higher prices "largely unrelated to ethanol or corn prices, but correspond to fundamental supply/demand relationships in the world".

While corn ethanol it is not the singular solution to our nation's energy problems, it undoubtedly has reduced our dependence on foreign oil. For every barrel of ethanol produced (1 barrel = 42 gallons), 1.2 barrels of petroleum are displaced at a refinery. According to an LECG study, more than 228 million barrels of oil were displaced by the 6.5 billion gallons of ethanol produced in 2007. While critics will say our government is subsidizing and mandating the use of ethanol, the subsidies pale in comparison to the amount we spend subsidizing the oil companies and protecting the shipping lanes to import oil from the most unstable region of the world. According to a 2005 Government Accountability Office (GAO) report, the United States has spent more than $130 billion subsidizing the oil industry over the past 32 years; this does not account for the billions spent to protect our military interests in the Middle East.

Because of the advanced renewable energy production, we have witnessed the plywood boards coming off Main Street businesses, instead of going up. The annual local economic impact of a 40 million gallon ethanol plant is without a doubt significant. The economic base is expanded by $110.2 million; household income increases $19.6 million; 694 permanent new jobs are created; and an additional $1.2 million is created in new tax revenues. USDA estimates government payments will decrease to 4 percent of gross cash income for farmers, compared to 7 percent in 2000–2005 as a result of expanded ethanol production. The future of renewable fuel production rests in the advancement of cellulosic ethanol, wind energy, solar energy, biodiesel and many others to be created.

BIOFUEL PRODUCTION VS. LIVESTOCK PRODUCTION

The primary use of U.S. corn production is for livestock feed, yet livestock prices have declined over the past year. Those who argue corn ethanol is the major contributing factor in food price inflation, have little to stand on in their argument linkin corn prices and livestock prices. Also lost in today's discussion is the fact that ethanol byproduct distillers grains actually reduce cattle feed costs. The U.S. ethanol industry is projected to produce 31 million tons of distiller's grains in 2008; these distillers' grains are not only a better protein feed for livestock but also is more economical. With corn at $5.56 per bushel, cattle feeders would pay $268 per ton of total digestible nitrogen (TDN) for corn while only paying $201 per ton of TDN for distiller's grains.

I was stunned to see comments by the President/CEO of Tyson Foods, Inc., the world's largest processor and marketer of chicken, beef and pork, suggesting the U.S. ethanol policy is nothing more than a regressive tax on the poor. This is the same company that reported gross profits of $1.433 billion; $928 million; and $1.72 billion in 2007, 2006 and 2005 respectively. This is also the same company that was one of the industrial livestock beneficiaries of below cost-of-production feedstock's by the tune of $35 billion according to a February 2007 Tufts University report (*Indus-*

trial Livestock Companies' Gains from Low Feed Prices" by *Timothy A. Wise* and *Elanor Starmer*).

The study undertook an econometric analysis, which documented that the broiler chicken and pork production industries have benefited significantly from low feedstock prices. From 1997 to 2005, soybeans were priced 15 percent below the average cost of production, while corn was priced 23 percent below. This equates to feed prices at 21 percent below cost of production for poultry and 26 percent below cost of production for the hog industry. To put it in more concrete terms, the Tufts study estimates that due to the low cost of production, the broiler chicken industry saved $11.25 billion and the industrial hog industry saved approximately $8.5 billion over the 9 year period.

FARMERS SHARE OF RETAIL FOOD DOLLAR

According to USDA, our farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home. Off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

The farmer's share of a $2.69 loaf of bread is $0.22; for a $5.05 box of corn flakes, the farmer receives $0.16; out of a $3.99 gallon of fat free milk, the farmer receives $1.54 and a one pound top sirloin steak that costs $7.99 at the grocery store provides $0.88 to the farmer. Attached to my testimony is NFU's latest Farmer's Share document highlighting the price consumers pay for a number of food products and the correlating price received by the farmer for that retail food item.

SOLUTIONS

Farm Bill Nutrition Programs

The 2008 Farm Bill currently in conference between the U.S. House and U.S. Senate will contain $10.3 billion in new funding, in total over $400 billion for domestic and international nutrition programs. The nutrition title of the bill accounts for two-thirds of the overall farm bill budget and is the single biggest increase for any title in the new bill. According to USDA's Economic Research Service, approximately one in five Americans participates in at least one food assistance program at some point during a given year.

International Food Aid

NFU supports the recent calls by Members of Congress to expand the United States' international food aid. The President's budget for FY2008 requests $350 million for food aid programs; while some have recently called for an additional $200 million to help respond to today's situation. Unfortunately, increased energy costs are having a profoundly negative impact on our food aid donations.

According to a 2007 Government Accountability Office, 65 percent of expenditures of the largest U.S. food aid program are for "transportation to the U.S. port for export, ocean transportation, in-country delivery, associated cargo handling costs, and administration." According to Dr. Christopher Barrett, a professor of development economics at Cornell University and editor of the American Journal of Agricultural Economics, it costs more than $2 of U.S. taxpayers' money to deliver $1 worth of food procured as in-kind food aid. Despite the negative impact of increased oil, gasoline and diesel expenses on our food programs, we should continue to do all that we can to ensure no one goes to bed hungry.

Strategic Oil Reserve

National Farmers Union has urged the president to halt deposits to the Strategic Petroleum Reserve (SPR), which currently holds more than $80 billion worth of oil. There is precedence for this response, with President Bush's decision 2 years ago to temporarily halt deposits in order to help alleviate consumer gasoline prices. Not only would we like to see deposits halted, but with the price of oil reaching $120 per barrel on Monday morning, we urge the president to open the SPR to help alleviate gas prices. SPR oil entering the marketplace within thirteen days after a Presidential directive would result in a much more profound positive economic impact for consumers than waiving the RFS or discouraging the production of biofuels.

Excessive Oil Profits Tax

As I mentioned above, the price of fuel has twice the impact on retail food costs as the price of corn. While ethanol production is being characterized as the root of all evil, the oil and gas industry continue to receive billions of dollars in tax breaks from the Federal Government while major oil companies make record profits. Exxon Mobile reported its 2007 profits were the highest ever recorded; earning more than $1,287 of profit for every second of 2007, for a total of $40.6 billion. Instead of cutting the ethanol mandate, maybe Congress should cut the big oil and gas subsidies. Some have suggested imposing an excessive profits tax on oil companies and direct those revenues to help offset any increased consumer expenses or increased livestock inputs as a result of oil prices. Farmers Union would fully support that effort.

SUMMARY

In summary, rising food prices do affect American families but not as a result of our renewable energy policies or at the benefit of American farmers. The challenge of higher food prices needs to be evaluated in its full context and the multiple causes be studied including increasing energy prices, reduced production, weakened currency, international trade, speculators in commodity markets and increased world demand.

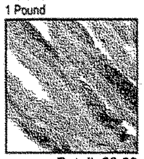
Two short years ago, agriculture critics blamed the United States for low commodity prices that prevented developing nations from producing their own food and cheap commodities for enhancing the obesity epidemic. Today, the same critics are blaming higher commodity prices for causing hunger across the world. We cannot win. What do they want? It seems as though all other sectors of our economy are encouraged to achieve the American Dream, except for farmers. I have repeatedly stated that profits should not be a dirty word for agricultural producers.

Thank you for the opportunity to testify and provide the American farmer and rancher's perspective to this debate. I would be happy to answer any questions committee members may have.

Farmer's Share of Retail Food Dollar

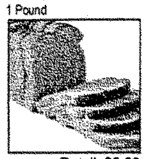
Did you know that farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home?

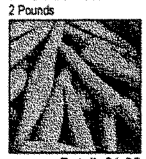
According to USDA, off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

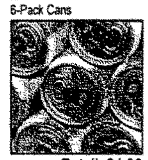
Bacon
1 Pound

Retail: $3.29
Farmer: $0.37

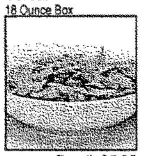
Top Sirloin Steak
1 Pound

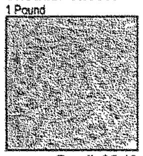
Retail: $7.99
Farmer: $0.88

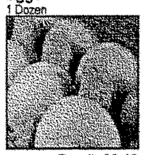
Bread
1 Pound

Retail: $2.69
Farmer: $0.22

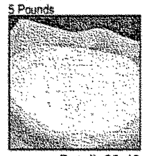
Fresh Carrots
2 Pounds

Retail: $1.89
Farmer: $0.32

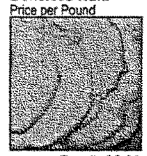
Beer
6-Pack Cans

Retail: $4.06
Farmer: $0.11

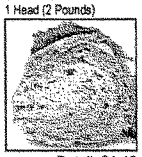
Cereal
18 Ounce Box

Retail: $5.05
Farmer: $0.16

Cheddar Cheese
1 Pound

Retail: $5.49
Farmer: $1.87

Eggs
1 Dozen

Retail: $3.49
Farmer: $1.31

Flour
5 Pounds

Retail: $3.49
Farmer: $1.08

Boneless Ham
Price per Pound

Retail: $2.99
Farmer: $0.42

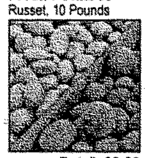
Lettuce
1 Head (2 Pounds)

Retail: $1.49
Farmer: $0.39

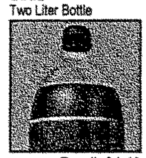
Milk
1 Gallon, Fat Free

Retail: $3.99
Farmer: $1.54

Potato Chips
Lay's Classic, 13.5 oz.

Retail: $3.49
Farmer: $0.08

Fresh Potatoes
Russet, 10 Pounds

Retail: $3.29
Farmer: $0.71

Soda
Two Liter Bottle

Retail: $1.49
Farmer: $0.07

Farmer's share derived from USDA, NASS "Agricultural Prices," 2007.
Retail based on Safeway (SE) brand except where noted.

Farmers Union
www.NFU.org

March 27, 2008

PREPARED STATEMENT RICHARD REINWALD, OWNER, REINWALD' S BAKERY

I would like to thank the Joint Economic Committee for holding this hearing today on how high food prices are affecting American families. I would especially like to thank my Senator from New York, Chairman Charles Schumer, and Vice Chairwoman Carolyn Maloney for their leadership on this important issue.

My name is Richard Reinwald and I own Reinwald's Bakery in Huntington, Long Island, New York. I am First Vice President of the Retail Bakers of America (RBA) and I am also affiliated with the American Bakers Association (ABA).

When we opened Reinwald's Bakery in Huntington, we continued a family tradition that now spans over 75 years and four generations. Our bakery makes everything from pies and breads to fancy cookies and of course, birthday and wedding cakes. We are very proud to be a part of people's lives in celebration and everyday life. We feel we contribute to the lifestyle that makes Huntington a great place to live and work.

It is almost to the day when we opened up 20 years ago. The first few years were a constant struggle and my wife and I did not know if we would make it. It was a great relief when the stress of that time was over.

Now the stress is back. In the last 12 months, we have seen explosive price increases on just about every commodity we use. This has created a perilous situation that threatens our ability to continue doing business in our community. For example, a one-hundred pound bag ofbread flour that cost $17.00 in 2006 today costs $52.00. Semolina flour was $21.00 per one-hundred pound bag; today it is $72.50. Soy oil and eggs have also doubled in the last year.

In a matter of weeks, our cost of goods sold soared to an all time high. Our bowl cost, or the cost of dough coming out of the mixing bowl, went from twenty-two cents per pound to fifty-one cents per pound for rye bread. Rye flour, used to make the best part of a deli rye sandwich, has not only doubled but is now in short supply and we are beginning to import rye from Europe as long as it is available.

How does one respond to such increases? In the past, Reinwald's Bakery has tried to couple small price increases with a strategy that enabled us to "sell" our way out of difficult times. The classic business response to rising material costs always has been to increase prices, cut labor, eliminate waste, seek economies of scale and pressure suppliers. We have been forced to do all of these things recently and until December of last year our strategy was working. Then in January the crisis came full circle—flour prices again reached new highs and wheat supplies plummeted to new record lows. Today I ask myself what strategy will we use to survive this year—what will we do now?

In February, we were forced to institute dramatic price increases across the board. Prices on bread items in particular increased significantly. A one-pound loaf of rye that sold for $2.65 in April 2007 today costs $3.45. In talking with bakers across the country, these kinds of increases are fairly common.

For us, the result of these increases has been a drop in volume of about 5 to 7 percent. While this may not sound like much, it is the difference between profit and loss; staying in business or closing the door. Some of my colleagues have not fared so well. A baker in Tampa has seen a decrease in volume of 18 percent since Oct.

I feel very fortunate to have a loyal customer base. They understand. that if we didn't raise prices to these levels we could not continue in business. However in conversations with them, my customers are angry and frustrated. They ask me what can I do.

To respond to these record high prices, I, along with many other wholesale and retail bakers from across the U.S. came to Washington D.C. in March of this year to participate in the Band of Bakers March. ABA, in conjunction with RBA and many other food industry associations and their members, met with Members of Congress, the USDA and the White House to discuss what can be done in light of the current commodity crisis.

While I and every other baker in the U.S. understand that high food prices have been caused in part by increased worldwide demand, a weakened dollar and adverse weather events such as last year's drought in Australia, the ethanol program, which continues to subsidize food for fuel, and other government programs that pay farmers not to farm their land, have also led to the current food crisis.

Why are we putting food in our gas tanks instead of our stomachs? As bakers we have no gripe with the farmer—they are trying to make a living like everyone else. But it is difficult to explain to my customers that flour prices are increasing because farmers are choosing to grow crops for fuel and not for food—that the government is incentivizing farmers through subsidies to grow corn for ethanol and not corn for feed and food uses. Wheat acreage continues to dwindle because farmers can make more money growing government subsidized fuel than they can growing food. Even with current record prices for flour, the response to grow wheat is greatly diminished because of mandates for ethanol production. The U.S. has a finite number of acres to use for farming, and fuel crops have taken over many acres that were previously used to grow food. Where will the land come from to grow more crops to meet new ethanol mandates? U.S. cropland is already stretched to its limit.

Now is the time for Congress to act on this issue. I am aware that the EPA can waive the renewable fuel standards (RFS) in cases when domestic supplies are not sufficient to meet demand or when implementing the RFS may severely harm the economy—I would argue that we are in the midst of insufficient demand and that the RFS is currently harming the economy. I encourage members of this committee to re-evaluate the ethanol program and to take necessary actions to waive the renewable fuel standards passed in the Energy Independence and Security Act of 2007.

Before closing, I would like to mention an outcome that is incidental, but no less important. Often overlooked is the impact that price increases have on donations to food banks. We sell our fresh bread for only 1 day and then happily give any that is left over to our local food pantries. I know that I am not alone in this practice, as many other bakeries in the industry also do the same. With the advent of increased costs we are tightening our inventory and we have been forced to bake closer to anticipated demand, as have other bakers. The food pantry that has come to rely on our production overruns and therefore is now short of food when demand is higher. This comes at a time when more and more people need the relief that food pantries provide to help them through these tough times.

In closing, I would again like to thank this committee, Chairman Schumer and Chairwoman Maloney for taking time today to discuss this important issue. To reiterate the problem, food prices, including baked goods, are reaching all times highs at a time when the economy is already near its breaking point. Consumers cannot afford to continue to pay record high prices for basic foodstuffs. I encourage this committee to revisit the ethanol program and ensure that there is a proper balance between food for American families and alternative fuels. In so doing all Americans might enjoy a wholesome diet and still live within a reasonable budget.

Thank you.

Rich Reinwald

Prepared Statement of the American Bakers Association and the Retail Bakers of America

I. INTRODUCTION

The American Bakers Association (ABA) and the Retail Bakers of America (RBA) thank the Joint Economic Committee, and especially Chairman Charles Schumer, for holding this critically important hearing on *How Are High Food Prices Impacting American Families?* ABA greatly appreciates the opportunity to present its views to the Committee.

The ABA is the national trade association that serves as the principal voice of the American wholesale baking industry. Its membership consists of more than 200 wholesale bakery and allied services firms. These companies are a variety of all sizes, ranging from family owned enterprises to companies affiliated with Fortune 500 corporations. Together, these companies produce approximately 80 percent of the nation's baked goods. The members of the ABA collectively employ tens of thousands of Americans nationwide in their production, sales and distribution operations. The ABA, therefore, serves as the principal voice of the American wholesale bakery industry.

The Retail Bakers of American is made up of approximately 2,000 retail bakeries, allied suppliers and other members, who are committed to the success of the retail baking industry. We foster the community of retail bakeries providing a forum for exchange of industry and business information, as well as networking, learning opportunities and mentoring among bakers, future and existing.

II. COMMODITY CRISIS

ABA and RBA are extremely concerned about high food prices and low commodity stocks in the United States and around the world. Wheat availability has sharply decreased while prices have sharply increased since the last quarter of 2007. This has happened for multiple reasons, including increases in the standard of living resulting in greater consumption of grains and meat, the devaluation of the dollar, adverse weather events (such as the 2007 Australian drought), programs that encourage farmers to take their land out of production and the increased demand of alternative fuels production. While there is little that can be done regarding adverse weather and the weak dollar, ABA believes Congress and the executive branch can take action to help alleviate the current volatile situation.

The Conservation Reserve Program (CRP) takes viable acres out of production by offering farmers incentives not to produce crops on their land, while the ethanol program encourages farmers through special subsidies and incentives to grow food crops for alternative fuel purposes. This combination of tightening supplies of finite arable land, coupled with increased incentives for biofuels, has played a key role in igniting the current commodity crisis.

The USDA projects that U.S. wheat production is expected to increase, but any increase will be "more than offset by increased use and trade prospects" and that "global ending stocks of wheat are projected to be the lowest in 30 years." In past years, U.S. wheat surplus stocks have averaged a 3–month supply. Today, these wheat stocks are dangerously low. Current estimates have wheat stocks at twenty-four days, over two-thirds lower than average supplies. For example, hard red winter (HRW) wheat stocksto-use ratio (carryover stock for any given commodity as a percentage of the total demand or use) is estimated at 10 percent at the end of the 2007/08 crop year. This means that when the wheat marketing year ends, the U.S. will have roughly between twenty-four and twenty-five days worth of wheat supply, spread out in every stage of production, from the farm to the bakery. The last time levels were this low was in 1946, when the United States exported much of its wheat crop to war torn countries in Europe and Asia.

III. IMPACT ON FOOD

Food prices have dramatically increased during the first quarter of 2008. In 2007, food inflation rose 4.9 percent, 2 percent above average. From January to March 2008, grocery food prices rose 5.3 percent. Cereal and baked goods are part of this inflation, as prices for these products increased 15.7 percent during this same period.

Unfortunately, ABA and RBA have reason to believe this is not the end of high inflation for food products. The prices of many food products, including baked goods, do not yet reflect show the impact of increased ingredient and other input costs. For example, a bakery may enter into a contract to purchase wheat flour for $50 per 100-pound bag, but may not pay for the flour until it is delivered, which could be three to 4 months from the date of contract. This means that baked goods purchased today may reflect input prices from 3 months ago; higher wheat prices today will translate into higher bread prices 3 months from now. This is important to note as grocery food prices are rising due to high prices paid for input costs in January and February 2008. Input costs in February and March reached record highs, which may indicate that consumer prices for food will also continue to reach new records.

IV. CAUSES AND SOLUTIONS

ABA and RBA strongly believe that Congress and the executive branch should carefully consider the needs of the domestic food industry first when supplies of wheat and other commodities drop to dangerously low levels. Not doing so places unnecessary risk on the U.S. food supply as well as undue burdens on consumers. Low commodity surplus stocks in the U.S. leave too much to chance, as even a slight weather or transportation problem could lead to possible serious global food shortages.

It is important to note that there is no one fix for the current commodity crisis. ABA believes, though, that steps can be taken to help stabilize commodity markets, give wheat users increased confidence about supply availability, and most importantly, provide some relief for consumer concerns about escalating food prices.

Food for Fuel: A Need for Balanced Policy

Ethanol as a gasoline additive is currently being used in the United States to increase gasoline's octane thereby improving vehicle efficiency and power. The nation's ethanol industry relies almost exclusively on corn-based ethanol to manufacture this "renewable fuel." Ethanol currently constitutes only a small fraction of the United States' fuel supply, but domestic production capacity has more than doubled since 2001. This trend is likely to continue as the 2007 "Energy Independence and Security Act of 2007" (Act) is implemented. The Act mandates new requirements for production of biofuels to 36 billion gallons in 2022 from 7.5 billion in 2012. By 2022, approximately 15 million gallons of the 36 billion will come from corn-based ethanol.

This has the potential to continue impacting the nation's commodity stocks and consumer food prices. USDA stated in January 2008 that the nation's 2007 corn crop was one for the record books, with 13.1 billion bushels of production eclipsing the previous high, set in 2004. Further, if projections are correct and there is an increased demand for corn-based ethanol, other grains, including wheat, may be in short supply.

Unfortunately, the baking industry is already experiencing adverse consequences from the ethanol program, as their ability to continue bringing cost-effective products to the marketplace has been dramatically hindered because of fuel crops taking land from food crops. Furthermore, recent studies show that biofuel mandates will increase overall food prices by 7 percent in 2008 and 8 percent in 2009. As mentioned before, consumer prices are increasing at record rates, with little relief in sight unless action is taken to alleviate the food for fuel dilemma.

Concerns remain that the 2007 Energy Bill will do little to change the nation's immediate fuel and energy challenges in the next three to 5 years, while exacerbating the current commodity crisis. For example, even if the entire U.S. corn crop were used to make ethanol, it would only replace 7 percent of national oil consumption. Taking food crops and turning them into fuel will not lead to U.S. independence from foreign fuels, but may lead to extremely tight food supplies, higher grocery store prices for all consumers, and dependence for food commodities from foreign countries—a position of concern with regard to food defense and national security.

Policy Solution

ABA and RBA strongly believe that there are two policy alternatives to the current ethanol program which will help alleviate the commodity crisis.

First, ABA, RBA and its members call on the Environmental Protection Agency, in consultation with the United States Department of Agriculture and the Energy Department, to waive renewable fuel standards until domestic supplies are adequate to meet standards. As most agricultural food stocks are at or nearing record lows, it is imperative that the ethanol program be postponed until food stocks are adequate to provide nutritious, low cost products to consumers and allow for further exploration and creation of alternative fuels. This will also require that Congress re-evaluate the corn-based ethanol program and include a clear mechanism to periodically evaluate the nation's grain situation, allowing for future waivers in cases of projected food shortages or drastic consumer price increases, adverse weather conditions leading to low commodity stocks, environmental challenges, infrastructure bottlenecks or other adverse consequences stemming from the current ethanol program.

Second, ABA and RBA urge Congress to eliminate the domestic corn-based ethanol credit as well as the ethanol import tariff. While it is important to relieve the U.S. dependence on foreign sources of oil, doing so at the cost of the food supply endangers consumers across the nation. Eliminating, or at the very least, temporarily waiving these credits and tariffs will send important market signals to commodity producers that more food crops must be grown to meet demand. Incentivizing ethanol production in, order to meet current mandates does not allow the market to react accordingly to demand.

In summary, ABA and RBA support increasing the use and development of non-food based alternative fuels to improve the nation's energy efficiency, but such policies should ensure a balance between alternative fuel production and the ability to provide consumers with reliable and affordable food products.

Availability of Commodity Acreage

ABA and RBA are highly alarmed about current and future wheat availability and the impact of high wheat prices on wheat users, including consumers. A major contributor to the dangerously tight wheat supplies is the increasing pressure on finite arable farm land in the US, as competition for land has increased due to ethanol mandates and general commodity demand.

Wheat plantings have tumbled in the last 10 years, and the U.S. now harvests fewer wheat acres than it did in 1898, the same year ABA was founded. In most years, US production of hard red spring wheat for bread is insufficient to meet total usage. Bakers and other food producers are experiencing critical difficulties in obtaining flour, the key ingredient in not only baked goods but other foods as well.

At the same time, the USDA allows up to 39.2 million acres of crop land to be enrolled in the Conservation Reserve Program (CRP), with 34.6 million acres of US cropland currently left idle within the program. A significant portion of CRP acreage is located in large wheat producing states. There is reason to believe that as much as one-third of acres under contract in the CRP could be returned to production without sacrificing environmental standards, since much of this land is not environmentally sensitive.

Policy Solution

ABA has held numerous meetings over the last 8 months with Congress, the USDA and the White House to express our mounting concerns regarding wheat availability.

ABA and RBA continue to call on the USDA Secretary to immediately use his authority to waive penalties for farmers wishing to follow market signals and return land retired through the CRP to production. In this regard, an Environmental Impact Statement (EIS) may be required prior to USDA action to grant early outs from CRP contracts. Since this step could take months to complete, ABA is urging USDA and the White House to begin work immediately on this project and to give it high priority status.

ABA and RBA also strongly support decreasing the total acreage allowed within the program by one-third. This compromise will continue to protect environmentally sensitive lands, increasing the focus of the CRP to lands that should be protected, such as waterway filter strips and similar areas, while at the same time allowing farmers to return to production viable lands that can be used to meet current commodity demands.

V. CONCLUSION

ABA, RBA and their respective members applaud the Joint Economic Committee for holding this hearing regarding the impact of food prices on American families, and especially thank Chairman Charles Schumer and Vice Chairwoman Carolyn Maloney for their leadership on these issues. The current commodity crisis greatly impacts American families, making it more difficult for consumers to put food on the table. ABA and RBA believe that implementing these changes to our current energy and agricultural policies as outlined in this statement will not only allow the market to correct itself, but more importantly, ease concerns regarding the potential threat of food shortages. Thank you again for the opportunity to address this important issue with each of you today.