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STATEMENT OF

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TO THE
SENATE HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS COMMITTEE

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Senator Lieberman, Senator Collins, and other distinguished members of the Homeland Security and Governmental Affairs Committee, I appreciate the opportunity to appear before you today to discuss the global hunger crisis, rising food prices and the impact of corn ethanol subsidies on poor and hungry people. Biofuels policy is a new issue Bread for the World and we find ourselves grappling with the same questions that you are seeking to answer today. I commend you for taking on this issue. While internationally this impact seems more direct, domestically it is less so for most of the food purchased.

Globally, food prices have almost doubled over the last three years, and the futures for basic commodities – wheat, corn, and soybeans – have jumped up by two-thirds in the last 12 months. Since poor people in developing countries spend the bulk of their income on basic commodities, world hunger has increased significantly. High food prices have incited riots and other social unrest in about thirty countries. This makes the issue of solving the world's hunger crisis not just vital for those in need but also important for the political stability of the world.

However, measuring the role that subsidies for corn-based ethanol play in increasing domestic hunger is more nuanced and requires a more thoughtful discussion. Diverting corn from feed for livestock to ethanol has been controversial from the start. The economic arguments were not solid, the environmental benefits not realistic, and the ability to move our nation away from fossil fuels simplistic. On the other hand, these efforts are helping rural communities that are hard-pressed economically. There is not an easy answer.



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Why are commodity prices going up and how does this increase translate into higher food prices?

Several factors contribute to higher commodity prices. Higher input costs like rising fuel prices contribute to an overall increase in commodity prices by making it more expensive to produce, transport and distribute. There are also issues related to causes as simple as supply and demand. Rising standards of living in countries like India and China have allowed people there to afford more nutritious and diverse foods, increasing the demand for meat and dairy products, which in turn depend on grain. Droughts in several parts of the world reduced the wheat crop in 2007, leading to an increase in wheat prices as demand outpaced supply. Drought in Australia has reduced that country's rice production by 98 percent in just six years.

And, in response to subsidies and mandates, farmers are diverting crops and land used for food to corn for ethanol. This puts pressure on the amount of corn available for food and drives up the price of corn. It also puts pressure on other crops as farmers shift soybeans, wheat and even cotton acres into corn to take advantage of higher prices. How much of the run-up in food prices is attributable to fuel mandates is a question on which reasonable people disagree. Modeling done by the International Food Policy Research Institute puts the effect at between 25 and 30 percent. The United Nations' Food and Agriculture Organization puts the impact at 10 to 15 percent, while the Bush administration reported at a May 1 press briefing that the impact of increased ethanol on global food prices is only 2 to 3 percent.

Domestically, as commodity prices go up, food prices follow, but to a much lesser extent than they do internationally. On average, about 20 cents of each dollar spent on food in this country comes from farm costs – the rest of the cost comes as the product travels from the farm to the grocery store shelf. Most of the retail price comes from packaging, processing, transportation, advertising, and profit.

The more processed a food is, the less its retail price is affected by changes in the original commodity price. Take for example a highly processed food like breakfast cereal. An 18-ounce box of corn flakes contains about 12.9 ounces of milled corn. A 50-percent increase in corn prices, similar to what we have seen in recent years, would raise the price of corn flakes by about 1.6 cents, or 0.5 percent. By contrast, foods that require little processing are more susceptible to commodity price fluctuations. In 2007 the price of milk rose 11.6 percent and the price of eggs jumped 29.2 percent.

How are rising food prices contributing to domestic hunger?

Most families can shift spending from other parts of their budget to enable them to spend more on food. But low-income households have less flexibility. Food accounts



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for 17.1 percent of income for households making less than \$10,000 per year compared to the U.S. average of 12.6 percent.

While rising food costs are placing additional strain on family budgets, they are part of a long list of increases in the cost of basic needs, such as housing, childcare, healthcare and fuel, which, compounded by the decrease in income from stagnant wages and higher unemployment, have no doubt increased both poverty and hunger in our country.

It's clear that food prices have gone up as have many of the most basic goods and services purchased by low-income families. The increase in expenses will require a response that mitigates these costs in the short term and strengthens a family's economic stability and capacity to respond to financial fluctuations in the long term. While I look forward to working with you on developing the second phase of this strategy, there should be no delay implementing the first: providing immediate relief for these families by strengthening our food assistance programs.

What is the impact of increasing food prices on our national nutrition programs?

Our nutrition assistance programs, including the Food Stamp Program, WIC, and The Emergency Food Assistance Program, or TEFAP (which provides funding to our nation's food banks), are strong tools for combating domestic hunger. Rising food prices place a strain on nutrition programs by increasing both the number of people seeking assistance and the cost of operating the program, making it harder for our nutritional safety net to function.

Enrollment in the Food Stamp Program jumped considerably in the last year, in part because of higher food prices. In January 2008, the number of households participating in the Food Stamp Program was up 5.6 percent from January 2007. Participation in other programs is expected to rise as well. When food costs go up, the purchasing power of the monthly food stamp benefit is diminished – families can buy less food with the benefit they are given. The average food stamp benefit is a meager \$1 per person per meal. In 2006, USDA found that 90% of benefits were used up by the third week of the month. But with food prices now much higher, that meager benefit is used up all the sooner.

While the Food Stamp Program is structured so that all who are eligible will be served, other programs can only serve a limited number of people. The number of women and young children who can be served each year by the WIC program depends on the annual appropriation and the cost of operating the program. When program costs



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go up because of higher food prices, either Congress must provide additional funding or families have to be cut from the program. If food prices continue to rise at their current rate, mothers and children will be cut from the program. Given the importance of proper nutrition for physical and cognitive development in the first few years of life, we must not let this happen.

Food banks traditionally help fill gaps in our safety-net by providing short-term, emergency food assistance. But higher operating costs from food and fuel limit the number of people food banks can serve, even at a time of higher need. Food banks estimate a 20 percent increase in requests for help. The annual TEFAP appropriation has not increased since 2003, despite the fact that the cost of food at home has gone up 18 percent since January 2003. And bonus commodities (provided through the government purchase of surplus commodities that farmers are unable to sell on the open market) have dwindled from about \$250 million in 2003 to \$58 million last year because of high commodity prices.

How can we help hungry people withstand higher food prices?

In the short term, Congress must provide immediate assistance through a second stimulus package to allow nutrition programs to meet increasing need and help to alleviate higher food costs. The stimulus should provide an immediate boost in food stamp benefit levels to help families meet today's actual food prices, additional WIC funding to ensure that all eligible women and children continue to receive benefits, and additional funding for TEFAP so that food banks can help families weather higher food prices.

Over the medium- and long-term, we need to develop a more dynamic, economically-efficient global agriculture to bring food prices down again. Currently, we have a nation-by-nation, highly managed, protectionist global agricultural system. Many developing countries have responded to higher food prices by limiting the export of food -- which has aggravated the problem. But the United States will be in no position to provide leadership in developing a more responsive, economically efficient global agriculture until Congress passes a farm bill that clearly signals a new direction. The United States is wasting billions of dollars on subsidies to well-off landowners. These subsidies often frustrate agricultural production in developing countries, which is especially important to hungry people around the world. Changing the commodity payment system would also free up money to better support struggling farm and rural families of modest means in this country while providing help to low-income Americans caught between a weak economy and rising food prices.

I applaud President Bush for persisting in his demands for a farm bill that makes



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true reforms to our commodity programs by tightening limits on federal farm payments to wealthy individuals; eliminating the beneficial interest provision of the marketing loan program that allows farmers to sell crops above the support price and still collect a subsidy; and working to bring us into compliance with international trade treaties.

A reformed farm bill would also strengthen nutrition programs for hungry and poor people. I was pleased to see last week that the farm bill conference committee had included an additional \$10.361 billion in investments in the nutrition title. Nearly 28 million Americans now receive food stamps, the highest since the program began in the 1960s. The number is likely to rise further. This increase in funding will provide essential food assistance through the Food Stamp Program and local food banks.

In addition to making changes through the farm bill, Congress must also wrestle with new information on the impact of our energy policies on hunger and the needs of poor people internationally. In light of the current hunger crisis, Congress must reexamine the policies that spur the conversion of food into fuel. The impact of corn-based ethanol on world hunger is especially clear.

At the same time, Congress must also look for ways to ensure that the progress realized by rural communities during the ethanol boom is not undone. Many rural communities have withered under the loss of its population and economic base; agriculture in the U.S. has become increasingly consolidated and mechanized; and manufacturing plants have relocated to follow lower cost labor. Ethanol plants have brought renewed vitality to many rural communities.

These are not easy issues. But today's hearing is an opportunity to begin the discussion and find a new direction. I applaud you for taking this first step.

Thank you.