FARM BILL 02 CHOICES

Section 32:

Shedding Light on the So-Called "Slush Fund"

BY GEOFFREY BECKER

Lunchtime! The school lunch program has become a major beneficiary of Section 32 funds. Here, students at John Adams Elementary in Alexandria, VA enjoy lunch.

photo courtesy USDA

In the constant search for money to solve constituent problems and pay for new projects, some policy makers have cast covetous eyes upon the so-called "secret slush fund" controlled by the Secretary of Agriculture. Such is the perception some have of USDA's Section 32 program.

Although it is not well-known, the 65-year-old program certainly is no secret; neither is it a "slush fund." Congress had some definite purposes in mind when it authorized the program. As a result, the Secretary remains somewhat constrained in how he or she can spend the several hundred million dollars that Section 32 makes available to him or her at the start of each fiscal year. These dollars mainly serve as a contingency reserve to alleviate "emergency" economic problems in the U.S. farm sector that crop up during the course of the year.

What Exactly *Is* Section 32?

Section 32 of the Agricultural Adjustment Act of August 24, 1935, authorizes a permanent appropriation, equal to 30 percent of annual U.S. Customs receipts. This money was first made available during the Great Depression to assist farmers suffering from price-depressing surpluses. Use of Section 32 funds, along with up to $300 million in unused funds from the previous year, are limited to three purposes: (1) encouraging the export of farm products through producer payments or other means; (2) encouraging domestic consumption of farm products by diverting surpluses from normal channels and expanding their use by low-income groups; and (3) rebuilding farmers' purchasing power.

These are broad objectives that appear to give the Secretary lots of latitude in spending what appears, at first glance, to be quite a bit of money. Customs revenues have risen, along with Americans' voracious appetite for foreign goods. The rise in customs revenues means that Section 32's 30 percent share has amounted to $5.6 billion to $5.7 billion annually in recent years. In reality, most of this money is diverted to other uses before it ever lands in the Secretary's discretionary fund.

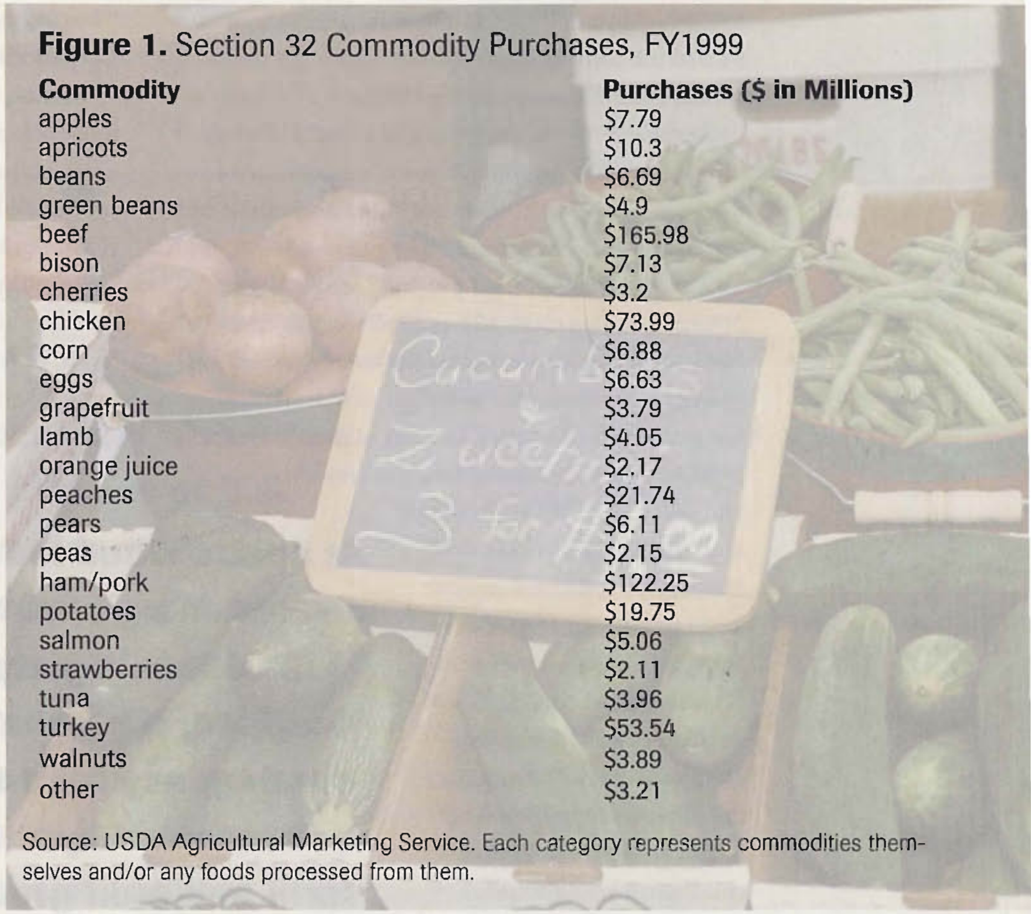

Figure 1. Section 32 Commodity Purchases, FY1999

Commodity	Purchases ($ in Millions)
apples	$7.79
apricots	$10.3
beans	$6.69
green beans	$4.9
beef	$165.98
bison	$7.13
cherries	$3.2
chicken	$73.99
corn	$6.88
eggs	$6.63
grapefruit	$3.79
lamb	$4.05
orange juice	$2.17
peaches	$21.74
pears	$6.11
peas	$2.15
ham/pork	$122.25
potatoes	$19.75
salmon	$5.06
strawberries	$2.11
tuna	$3.96
turkey	$53.54
walnuts	$3.89
other	$3.21

Source: USDA Agricultural Marketing Service. Each category represents commodities themselves and/or any foods processed from them.

How Are Section 32 Funds Used?

Today, most of the Section 32 appropriation is simply transferred to the nutrition programs, but the best-known use of Section 32 remains USDA's direct purchases of U.S.-produced food products, an activity that began in 1938.

The Department has always sought uses for these purchases that do not disrupt private markets. Early in the program, USDA began donating the foods to low-income families and schools on the premise that such donations would supplement, and not displace, normal food purchases by these recipients. Section 32 commodities helped stimulate early growth of school lunch programs.

School lunch and other domestic nutrition programs have since evolved into the major users of Section 32 funds, which helps them in two distinct ways. First, as noted, most of the Section 32 permanent appropriation simply gets transferred directly into USDA's Food and Nutrition Service (FNS) child nutrition account, where it is supplemented by a separate direct appropriation under the annual USDA appropriation law. These funds are then used to reimburse schools, child care centers, and other eligible institutions for meals served to children. These cash reimbursements are separately authorized and required by the National School Lunch Act of 1946.

Second, a smaller amount of Section 32 money is set aside each year to purchase U.S. food products and provide them to schools and other venues. USDA's Agricultural Marketing Service (AMS) makes these purchases. Again, the School Lunch Act specifies the value of these commodities (at per-meal rates). Some Section 32 money currently funds a number of additional programs.

Fiscal Year 2000 Spending

Following is a breakdown of the Section 32 budget for FY 2000:

The permanent appropriation entitled the program to an estimated $5.735 billion, representing 30 percent of prior calendar-year customs receipts.

The uncommitted balance of $113 million from FY1999, along with about $50 million in funds recovered from prior year obligations, brought FY2000 funding to a total of $5.898 billion.

About $4.935 billion was transferred to the child nutrition programs cash account. This money helped pay for federal program obligations estimated at

$9.554 billion in FY2000. The difference, about $4.619 billion, was funded directly through the annual child nutrition appropriation.

Another $70 million (30 percent of the revenue earned from fish product imports) was allocated to the Commerce Department for fisheries research and related purposes, as required by Congress.

That left $893 million available for fiscal year 2000. From this total, $21 million went to cover AMS administrative expenses for its direct food purchasing services and for oversight of federal marketing orders. The Secretary earmarked an additional $400 million for planned direct commodity purchases by AMS, in order to partially fulfill required commodity assistance mandated by Section 6(e) of the National School Lunch Act. (Total required commodity assistance costs for the year came to about $772 million; the other $325 million was budgeted from the annual child nutrition appropriation made by Congress.)

At a time when federal discretionary spending has been tightly capped, the annual contingency fund has been viewed by these farm and food groups as an available reserve of unused money.

The balance, about $423 million, was available at the start of FY2000 to serve as a "contingency reserve" for "emergency" removals of surplus agricultural commodities, disaster relief, or other agricultural needs. This balance is what some have characterized as the "slush fund."

By the end of FY2000 (September 30, 2000), AMS had tapped the contingency reserve for two primary activities: $200 million for "emergency" surplus purchases of various fruit, vegetable, meat, and poultry products, which in turn were provided free of charge to schools or other eligible institutions (over and above any of their "entitled" commodity amounts); and $31 million for direct payments to sheep producers under an ad hoc diversion program administered by USDA's Farm Service Agency.

The approximately $192 million in unspent funds at the end of FY2000 — when combined with about $50 million recovered from prior year obligations — brought the unobligated balance at the beginning of the new fiscal year, starting October 1, 2000, to $242 million.

"Traditional" Section 32 Uses: Is Slush a Commodity?

Section 32 purchases are chiefly of perishable non-basic agricultural commodities — that is, those not required under separate farm laws to be supported through Commodity Credit Corporation (CCC) price support activities. Unlike CCC price support legislation, Section 32 does not specify exactly which commodities must be assisted, at what levels, or how. These decisions are left to the Secretary of Agriculture.

AMS, FNS, and other USDA agencies consult with major commodity organizations and then devise, by early spring, a tentative purchase plan for the next school year (purchases may begin in May). The plan is based on prior year purchases, anticipated school food needs, expectations of available funds, and any anticipated surplus or other market conditions in the coming year, among other things.

Department officials generally divide annual purchases among three broad categories: red meat, poultry, and fruits and vegetables. Although AMS does buy some fresh items, most of its purchases are either frozen and canned products or bulk commodities for further processing.

USDA usually dips into the contingency reserve when special purchases are deemed necessary. The Department may learn about these needs through its own commodity experts or be informed of surplus or other problems — often low prices — by outside farm and industry organizations. These emergency purchases vary from year to year by both level and type of commodity.

"Nontraditional" Section 32 Uses

Although contingency funds have been used primarily for surplus commodity purchases, the Department occasionally spends the money on other activities. For example, Section 32 financed a pilot food stamp program for several years in the early 1940s. A 1983 emergency jobs bill appropriated $75 million to purchase and distribute foods to needy families in high unemployment areas. Congress earmarked $10 million for the special purchase of sunflower oil in FY1988, and $50 million for a similar program in FY1994. In 1999, $178 million was made available for diversion payments to hog producers — the first $54 million from the contingency fund, the rest through a special Section 32 appropriation by Congress. Finally, in FY2000, USDA used $31 million for diversion payments to lamb producers.

One of the few longstanding constraints on USDA's use of Section 32 funds is that no more than 25 percent of each year's available funds can be earmarked for any one agricultural commodity (or products derived from it). USDA was bumping against that limit for pork in FY1999, so Congress enacted a one-year suspension of the cap, clearing the way for more assistance to pork producers, hit by historically low prices in late 1998 and early 1999.

Since only about two percent of U.S. residents live on farms, some have suggested that the (30 percent) set-aside (of Customs revenues) may be too large. Others counter that the level of funding remains appropriate for several reasons.

Budget Issues: How Much Slush Is Enough?

Hog industry supporters in Congress were able in 1999 to overcome budgetary hurdles that, in past years, had hindered other groups seeking to tap the Section 32 fund to support a variety of activities, such as aid for the U.S. aquaculture industry, new or expanded food programs for disadvantaged groups or communities, and various projects to assist U.S. farmers. At a time when federal discretionary spending has been tightly capped, the annual contingency fund has been viewed by these farm and food groups as an available reserve of unused money.

However, others contend that diverting such money to other uses leaves less for unanticipated needs that might arise. Also, an appropriation would then be needed to replenish the contingency fund for the next year, unless policy-makers conclude that it can be maintained at a lower level.

Funds also might be freed by transferring fewer Section 32 revenues to the child nutrition cash account. However, that would require a larger annual child nutrition appropriation to compensate. Another funding alternative might be to shift money from traditional priorities (such as buying less meat, poultry, fruits, and/or vegetables, or reducing the set-aside for fisheries research). That alternative would likely stir strong opposition from affected groups.

One question is whether the 30 percent of Customs receipts is still an appropriate level of funding for Section 32. Congress designated this level in 1935 on the premise that about 30 percent of the population then lived on farms (official data suggest that the proportion actually was closer to 25 percent). Thus, the amount theoretically represented farmers' "fair share" of Customs revenues. Since today only about two percent of U.S. residents live on farms, some have suggested that the set-aside may be too large.

Others counter that the program and its level of funding remain appropriate for several reasons. Farm families might count for a much smaller proportion of the population, but they are the cornerstone of a food and fiber system with a net value of over $1 trillion (almost 15 percent of the U.S. gross domestic product), and roughly 25 million jobs, they argue. With most Section 32 money now channeled right to the child feeding programs, AMS actually spends only about 3 percent of customs receipts directly on agricultural activities. And, the program continues to encourage domestic food consumption by providing nutrition for children, a national priority for most policy-makers.

There appear to be no legislative plans on the horizon to end the Section 32 program as we know it. But how the dollars are used and who gets them — along with the budgetary implications of these decisions — will continue to be of interest to agricultural policy makers.

Geoffrey Becker is with the Congressional Research Service. The views expressed here are not necessarily those of the Congressional Research Service or the U.S. government.