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REVISIONS IN THE FEDERAL CROP
INSURANCE PROGRAM

May 4
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GOVERNMENT

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HEARINGS
BEFORE THE
SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES
OF THE
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE
NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 399

A BILL TO AMEND THE FEDERAL CROP INSURANCE ACT,

AND

S. 644

A BILL TO ESTABLISH A VOLUNTARY PROGRAM TO PROVIDE FARMERS
PROTECTION AGAINST LOSS OF FARM PRODUCTION WHEN NATURAL
OR UNCONTROLLABLE CONDITIONS ADVERSELY AFFECT SUCH
PRODUCTION,

AND

S. 646

A BILL TO AMEND THE FEDERAL CROP INSURANCE ACT, AND FOR
OTHER PURPOSES,

AND

S. 647

A BILL TO AMEND THE FEDERAL CROP INSURANCE ACT, AND FOR
OTHER PURPOSES,

AND

S. 713

A BILL TO PROVIDE A VOLUNTARY SELF-HELP PROGRAM DESIGNED
TO ASSIST PRODUCERS OF AGRICULTURAL PRODUCTS TO PROTECT
THEMSELVES AGAINST LOSS OF PRODUCTION WHEN NATURAL OR
UNCONTROLLABLE CONDITIONS ADVERSELY AFFECT PRODUCTION
AND TO ASSURE CONSUMERS THAT PRODUCERS WILL BE ABLE TO
CONTINUE TO PRODUCE FOOD AND FIBER

MARCH 20 AND 29, 1979

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REVISIONS IN THE FEDERAL CROP INSURANCE PROGRAM

TUESDAY, MARCH 20, 1979

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 324, Russell Senate Office Building, Hon. Walter D. Huddleston (chairman of the subcommittee) presiding.

Present: Senators Huddleston and Pryor.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order.

I would like to welcome everyone this morning to the hearing on the Federal crop insurance program. This is a continuation of a series of hearings the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices has been holding on the development of an expanded crop insurance program. We plan to schedule additional hearings in the near future.

The task before this subcommittee is to examine legislative proposals and then develop a comprehensive program to protect farmers against loss of production, with the costs, benefits, and rules well defined and laid out plainly before disaster strikes.

There is a definite need for legislation because Government programs are inadequate, inequitable, duplicative and are not available to all producers.

The ASCS disaster payment program provides payments to producers who suffer low yields due to natural disasters, but it is limited to producers of six crops and protects only about 30 percent of the cost of production.

During hearings on the Food and Agriculture Act of 1977, Secretary of Agriculture Bergland and other witnesses were critical of the disaster payment program, the most costly disaster relief program. Consequently, disaster payments were reauthorized for only 2 years, with the understanding that Congress and the administration would undertake remedial legislation before the program's expiration in 1979.

The present Federal crop insurance program is an ongoing voluntary program administered by the Federal Crop Insurance Corporation, but it has been an experimental program since 1938, and presently

expansion is limited to three crops and 150 counties a year. Currently coverage is available on only 26 of the more than 430 crops grown commercially and is available in only about half the counties in the United States.

The administration has submitted a proposal to Congress to establish a comprehensive insurance program under the Commodity Credit Corporation, which would replace the ASCS disaster payment program, the Federal crop insurance program and the subsidized interest portion of the disaster loan programs of the Farmers Home Administration and the Small Business Administration. Testimony was received from Secretary Bergland and James Deal, the Manager of the Federal Crop Insurance Corporation, in hearings before this subcommittee last year on the all-risk, all-county, all-producer plan. The administration proposal sent to Congress this year is patterned after last year's bill, except for the critical areas of operation and administration.

In addition to this bill, Senator Dole has introduced S. 399 and I have introduced three bills for consideration at these hearings. These three bills, S. 644, S. 646, and S. 647, are identical to bills I introduced in the 95th Congress. My purpose is to make sure that all sides of the issue are aired.

[S. 399, S. 644, S. 646, S. 647, and S. 713 follow:]

96TH CONGRESS
1ST SESSION

S. 399

To amend the Federal Crop Insurance Act.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 8 (legislative day, JANUARY 15), 1979

Mr. DOLE (for himself, Mr. PRESSLER, Mr. STEWART, Mrs. KASSEBAUM, and Mr. HAYAKAWA) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To amend the Federal Crop Insurance Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Federal Crop Insurance
4 Expansion Act of 1979".

5 SEC. 2. Section 504(a) of the Federal Crop Insurance
6 Act, as amended, is amended to read as follows:

7 "SEC. 504. (a) The Corporation shall have a capital
8 stock of \$450,000,000 subscribed by the United States of
9 America, payment for which shall, with the approval of the

1 Secretary of Agriculture, be subject to call in whole or in
2 part by the Board of Directors of the Corporation.”.

3 SEC. 3. The second sentence of subsection (c) of section
4 505 of the Federal Crop Insurance Act, as amended, is
5 amended to read as follows: “The members of the Board who
6 are not employed by the Government shall be paid such com-
7 pensation for their services as directors as the Secretary of
8 Agriculture shall determine, but such compensation shall not
9 exceed the daily equivalent of the rate prescribed for grade
10 GS-18 in section 5332 of title 5, United States Code, when
11 actually employed, and be allowed travel expenses, including
12 per diem in lieu of subsistence, as authorized by section 5703
13 of title 5, United States Code, for persons in the Government
14 service employed intermittently.”.

15 SEC. 4. Section 507 of the Federal Crop Insurance Act,
16 as amended, is amended—

17 (1) by striking out “, and county crop insurance
18 committeemen” in subsection (a);

19 (2) by striking out the comma after the word
20 “title” in subsection (b) and all that follows down
21 through the end of the sentence and inserting in lieu
22 thereof a period;

23 (3) by striking out subsection (c) in its entirety;

1 (4) by redesignating subsection (d) as subsection
2 (c) and amending such subsection (as redesignated) to
3 read as follows:

4 “(c) The Corporation may contract with, and transfer
5 funds to, other agencies and offices of the Department of Ag-
6 riculture or with the county committees established pursuant
7 to section 8(b) of the Soil Conservation and Domestic Allot-
8 ment Act, as amended, for assistance in carrying out this
9 title; but any employees of such other agencies and offices
10 responsible for performing functions under this title shall be
11 responsible directly to the Corporation without the interven-
12 tion of any intermediate office or agency.”; and

13 (5) by redesignating subsection (e) as subsection
14 (d).

15 SEC. 5. Section 508 of the Federal Crop Insurance Act,
16 as amended, is amended to read as follows:

17 “SEC. 508. To carry out the purposes of this title the
18 Corporation—

19 “(a)(1) shall for the 1979 and subsequent crop
20 years insure producers of wheat, cotton, grain sor-
21 ghum, corn, rice, and barley, wherever grown commer-
22 cially, but subject to the limitations herein, and may
23 insure producers of other agricultural commodities
24 wherever grown commercially, subject to the limita-
25 tions herein, at such time as the Board determines that

4

1 insurance on any other agricultural commodity has
2 been developed to the point that it can be offered to
3 the producers thereof. The insurance for any commod-
4 ity shall be offered under any plan or plans determined
5 by the Board to be adapted to the commodity. Such
6 insurance shall be against loss of the insured commod-
7 ity due to one or more unavoidable causes, including
8 drought, flood, wind, frost, winter-kill, excessive rain,
9 snow, wildlife, hurricane, tornado, insect infestation,
10 plant disease, and such other unavoidable causes, other
11 than hail, lightning, or fire, as may be determined by
12 the Board: *Provided*, That, except in the case of to-
13 bacco, such insurance shall not extend beyond the
14 period the insured agricultural crop is in the field. Any
15 insurance offered against loss in yield shall cover up to
16 85 per centum of the average yield for a representative
17 period of years for a farm, or area in which the farm is
18 located, as determined by the Corporation on the basis
19 of recorded or appraised yields, subject to such adjust-
20 ments as may be necessary to the end that the average
21 yield fixed for farms in the same area, which are sub-
22 ject to the same conditions, may be fair and just. In
23 addition, the Corporation may offer lower levels of cov-
24 erage to be selected at the option of each producer. In-
25 surance provided under this subsection shall not cover

1 losses due to the neglect or malfeasance of the pro-
2 ducer, or to the failure of the producer to reseed to the
3 same crop in areas and under circumstances where the
4 Corporation determines it was practical to so reseed,
5 or to the failure of the producer to follow established
6 good farming practices. For each crop insured, the
7 Corporation shall not offer insurance on any acreage
8 not suited to the production of such crop or in any
9 county where the planted acreage of such crop is
10 below a minimum county acreage as established by the
11 Corporation, except that it may, if it is deemed practi-
12 cal to do so, offer insurance on acreage in such county
13 through the office serving another county which meets
14 the minimum requirement. The Corporation shall
15 report annually to the Congress the results of its oper-
16 ations on each commodity insured.

17 “(2) may implement the program set forth in
18 paragraph (1) for crops planted for harvest in 1979, as
19 determined by the Board, consistent with the purposes
20 of this Act, as amended, to insure, or reinsure insurers
21 of, producers of such agricultural commodities under
22 any plan or plans of insurance determined by the
23 Board to be adapted to any such commodity.

24 “(3) may insure producers against losses that they
25 may incur when they are unable to plant an agricul-

1 tural crop because of weather conditions. Insurance
2 issued under authority of this paragraph shall be sub-
3 ject to the applicable provisions of paragraph (1) of this
4 subsection.

5 “(b) may fix adequate premiums of insurance at
6 such rates as the Board deems sufficient to cover
7 claims for crop losses on such insurance, establish as
8 expeditiously as possible a reasonable reserve against
9 unforeseen losses, and sell the crop insurance provided
10 for under this Act through contract arrangements with
11 commercially operated insurance companies. For the
12 purpose of encouraging the broadest possible participa-
13 tion in the crop insurance program, $33\frac{1}{3}$ per centum
14 of each participant’s calculated premium shall be paid
15 by the Federal Government. The remaining $67\frac{2}{3}$ per
16 centum of the premium shall be paid by each partici-
17 pant and such premiums shall be collected at such time
18 or times or shall be secured in such manner as the
19 Board may determine.

20 “(c) may adjust and pay claims for losses under
21 rules prescribed by the Board. In the event that any
22 claim for indemnity under the provisions of this title is
23 denied by the Corporation, an action on such claim
24 may be brought against the Corporation in the United
25 States district court, or in any court of record of the

1 State having general jurisdiction, sitting in the district
2 or county in which the insured farm is located, and ju-
3 risdiction is hereby conferred upon such district courts
4 to determine such controversies without regard to the
5 amount in controversy: *Provided*, That no suit on such
6 claim shall be allowed under this section unless the
7 same shall have been brought within one year after the
8 date when notice of denial of the claim by registered
9 mail is sent to the claimant.

10 (d) may provide, upon such terms and conditions
11 as the Board may determine to be consistent with sec-
12 tion 508(b) and sound reinsurance principles, reinsur-
13 ance to private insurance companies, or groups or
14 pools of such companies, which insure producers of any
15 agricultural commodity under contracts acceptable to
16 the Corporation: *Provided*, That no application for re-
17 insurance shall be approved unless the Corporation
18 shall have determined that the reinsurance deemed
19 necessary is not available from recognized private
20 sources at reasonable cost.

21 SEC. 6. The second sentence of section 515 of the Fed-
22 eral Crop Insurance Act, as amended, is amended to read as
23 follows: "The compensation of the members of such commit-
24 tee shall be determined by the Board, but shall not exceed
25 the daily equivalent of the rate prescribed for grade GS-18 in

1 section 5332 of title 5, United States Code, when actually
2 employed, and be allowed travel expenses, including per diem
3 in lieu of subsistence, as authorized by law (section 5703 of
4 title 5, United States Code) for persons in the Government
5 service employed intermittently.”.

6 SEC. 7. Section 516 of the Federal Crop Insurance Act,
7 as amended, is amended to read as follows:

8 “SEC. 516. (a) There is hereby created within the
9 Treasury a separate fund (hereafter in this section called the
10 ‘fund’) which shall be available to the Corporation without
11 fiscal year limitation as a revolving fund for carrying out the
12 purposes of this title. A business-type budget for the fund
13 shall be prepared, transmitted to the Congress, considered,
14 and enacted in the manner prescribed by sections 102, 103,
15 and 104 of the Government Corporation Control Act (31
16 U.S.C. 847-849) for wholly owned Government corpora-
17 tions.

18 “(b)(1) There are authorized to be appropriated to the
19 fund such amounts as may be necessary to restore the ex-
20 pense of the Corporation, including administrative and oper-
21 ating expenses, Federal premium payments, interest, the
22 direct cost of loss adjustment and agents’ commissions, but
23 excluding indemnities. All amounts received by the Corpora-
24 tion as premiums, fees, and other moneys, property, or assets

1 derived by it from its operations in connection with this title
2 shall be deposited in the fund.

3 “(2) The Corporation is hereby authorized to use any
4 funds available to it for administrative and operating ex-
5 penses subject to limitations that shall be prescribed in appli-
6 cable Acts: *Provided, That*, the direct cost of loss adjustment
7 for crop inspections and loss adjustments, Federal premium
8 payments, interest expense, and agents’ commissions may be
9 considered by the Corporation as being nonadministrative or
10 nonoperating expenses.

11 “(3) All expenses, including reimbursements to other
12 Government accounts, and payments pursuant to operations
13 of the Corporation under this title shall be paid from the fund.
14 From time to time, and at least at the close of each fiscal
15 year, the Corporation shall pay from the fund into Treasury
16 as miscellaneous receipts interest on its outstanding capital
17 stock and outstanding borrowings from the Treasury, less the
18 average undisbursed cash balance in the fund during the year
19 and Federal premium payments due the Corporation. The
20 rate of such interest shall be determined by the Secretary of
21 the Treasury and shall be not less than a rate determined by
22 taking into consideration the average market yield during the
23 month preceding each fiscal year on outstanding marketable
24 obligations of the United States to comparable maturities. In-
25 terest payments may be deferred with the approval of the

1 Secretary of the Treasury, but any interest payments so de-
2 ferred shall themselves bear interest. If at any time the Cor-
3 poration determines that moneys in the fund exceed the pres-
4 ent and any reasonably prospective future requirements of
5 the fund, such excess may be transferred to the general fund
6 of the Treasury.

7 “(c) If at any time the moneys available in the fund are
8 insufficient to enable the Corporation to discharge its respon-
9 sibilities under this title, it shall issue to the Secretary of the
10 Treasury notes or other obligations in such forms and de-
11 nominations, bearing such maturities, and subject to such
12 terms and conditions, as may be prescribed by the Secretary
13 of the Treasury. Redemption of such notes or obligations
14 shall be made by the Corporation from appropriations or
15 other moneys available under subsection (b) of this section.
16 Such notes or other obligations shall bear interest at a rate
17 determined by the Secretary of the Treasury, which shall be
18 not less than a rate determined by taking into consideration
19 the average market yield on outstanding marketable obliga-
20 tions of the United States of comparable maturities during
21 the month preceding the issuance of the notes or other obli-
22 gations. The Secretary of the Treasury shall purchase any
23 notes or other obligations issued hereunder and for that pur-
24 pose he is authorized to use as a public debt transaction the
25 proceeds from the sale of any securities issued under the

1 Second Liberty Bond Act and the purposes for which securi-
2 ties may be issued under that Act are extended to include
3 any purchase of such notes or obligations. The Secretary of
4 the Treasury may at any time sell any of the notes or other
5 obligations acquired by him under this subsection. All re-
6 demptions, purchases, and sales by the Secretary of the
7 Treasury of such notes or other obligations shall be treated
8 as public debt transactions of the United States.

9 “(d) The Secretary of Agriculture and the Corporation,
10 respectively, are authorized to issue such regulations as may
11 be necessary to carry out the provisions of this title.”.

12 SEC. 8. Section 518 of the Federal Crop Insurance Act
13 is amended by striking out “SEC. 518. ‘Agricultural com-
14 modity,’” and inserting in lieu thereof “SEC. 518. ‘Agricul-
15 tural crop,’”.

1 uncontrollable conditions adversely affect such production
2 and providing the means for research and experience helpful
3 in devising and establishing such protection.

4 DEFINITIONS

5 SEC. 3. When used in this Act, except where the con-
6 text requires otherwise—

7 (a) the term "Department of Agriculture" means
8 the United States Department of Agriculture;

9 (b) the term "Secretary" means the Secretary of
10 Agriculture of the United States;

11 (c) the term "Corporation" means the Farm Pro-
12 duction Protection Corporation;

13 (d) the term "Board" means the Board of Direc-
14 tors of the Farm Production Protection Corporation;

15 (e) the term "agricultural products" means wheat,
16 cotton, flax, corn, dry beans, oats, barley, rye, tobacco,
17 rice, peanuts, soybeans, sugar beets, sugar cane,
18 timber and forests, nursery stocks, potatoes and other
19 vegetables, citrus and other fruits, tame hay, livestock,
20 and poultry commercially produced for food or fiber,
21 and any other agricultural product, and any aquacul-
22 tural product, as determined by the Board, or any one
23 or more of such products, as the context indicates;

24 (f) the term "normal production loss" means loss
25 of production by a person protected under this Act

1 during a time period in which the overall production in
2 the area or county in which such person is located
3 does not fall below normal production levels for such
4 area or county, as determined by the Board by apply-
5 ing sound actuarial principles;

6 (g) the term "catastrophic production loss" means
7 loss of production by a person protected under this Act
8 during a time period in which the overall production in
9 the area or county in which such person is located falls
10 below normal production levels for such area or
11 county, due to drought, flood, or other natural disaster
12 or condition beyond the control of producers, as deter-
13 mined by the Board by applying sound actuarial princi-
14 ples; and

15 (h) the term "production costs" means the costs
16 to a producer of producing an agricultural product, as
17 determined by the Board by applying sound actuarial
18 principles, and may include, but is not limited to, the
19 following specific costs:

20 (1) direct or variable costs such as labor,
21 power, seed, fertilizer, and chemicals, custom
22 services, irrigation, crop drying, interest on oper-
23 ating capital, other materials, and machine owner-
24 ship costs such as charges for replacement of ma-

1 chinery, and interest, insurance, and taxes on ma-
2 chinery;

3 (2) charges for overhead costs such as per-
4 sonal property taxes, electricity, sales taxes, in-
5 surance, farm auto costs, and other such costs not
6 directly related to the production of a specific ag-
7 ricultural product;

8 (3) a charge for management; and

9 (4) land charges such as share rent, cash
10 rent, and acquisition costs.

11 CREATION OF FARM PRODUCTION PROTECTION

12 CORPORATION

13 SEC. 4. To carry out the purposes of this Act, there is
14 hereby created a body corporate with the name "Farm Pro-
15 duction Protection Corporation" which shall be an agency
16 and instrumentality of the United States within the Depart-
17 ment of Agriculture. The Corporation shall be subject to the
18 general supervision and direction of the Secretary. The prin-
19 cipal office of the Corporation shall be located in the District
20 of Columbia, but there may be established agencies or branch
21 offices elsewhere in the United States under rules and regula-
22 tions prescribed by the Board.

23 CAPITAL STOCK

24 SEC. 5. (a) The Corporation shall have a capital stock of
25 \$300,000,000 subscribed by the United States of America,

5

1 payment for which shall, with the approval of the Secretary,
2 be subject to call in whole or in part by the Board.

3 (b) There is hereby authorized to be appropriated such
4 sums as are necessary for the purpose of subscribing to the
5 capital stock of the Corporation.

6 (c) Receipts for payment by the United States of Amer-
7 ica for or on account of such stock shall be issued by the
8 Corporation to the Secretary of the Treasury and shall be
9 evidence of the stock ownership by the United States of
10 America.

11 MANAGEMENT OF THE CORPORATION

12 SEC. 6. (a) The management of the Corporation shall be
13 vested in a Board of Directors subject to the general direc-
14 tion and supervision of the Secretary. The Board shall consist
15 of the manager of the Corporation, two other persons em-
16 ployed by the Department of Agriculture (including a person
17 whose duties include providing services to consumers), one
18 person experienced in the insurance business who is not oth-
19 erwise employed by the Federal Government, and three
20 active farmers who are not otherwise employed by the Feder-
21 al Government. The Board shall be appointed by, and hold
22 office at the pleasure of, the Secretary. The Secretary shall
23 not be a member of the Board.

24 (b) Vacancies in the Board so long as there shall be four
25 members in office shall not impair the powers of the Board to

1 execute the functions of the Corporation, and four of the
2 members in office shall constitute a quorum for the transac-
3 tion of the business of the Board.

4 (c) The Directors of the Corporation who are employed
5 in the Department of Agriculture shall receive no additional
6 compensation for their services as such Directors, but may be
7 allowed necessary traveling and subsistence expenses when
8 engaged in the business of the Corporation away from their
9 duty stations. The Directors of the Corporation who are not
10 employed by the Federal Government shall be paid such
11 compensation for their services as directors as the Secretary
12 shall determine but such compensation shall not exceed the
13 daily equivalent of the rate prescribed for grade GS-18 in
14 section 5332 of title 5 of the United States Code per day
15 when actually employed, and actual necessary traveling and
16 subsistence expenses or a per diem allowance in lieu of sub-
17 sistence expenses, as authorized by section 5703 of title 5 of
18 the United States Code for persons in Government service
19 employed intermittently, when on business of the Corporation
20 away from their homes or regular places of business.

21 (d) The manager of the Corporation shall be its chief
22 executive officer, with such power and authority as may be
23 conferred on the manager by the Board. He shall be appoint-
24 ed by, and hold office at the pleasure of the Secretary.

1 GENERAL POWERS OF THE CORPORATION

2 SEC. 7. The Corporation—

3 (a) shall have succession in its corporate name;

4 (b) may adopt, alter, and use a corporate seal,
5 which may be judicially noted;6 (c) may make contracts and purchase or lease and
7 hold such real and personal property as it deems nec-
8 essary or convenient in the transaction of its business,
9 and may dispose of such property held by it upon such
10 terms as it deems appropriate;11 (d) subject to the provisions of section 9(d) of this
12 Act, may sue or be sued in any district court of the
13 United States, including any district court of the Dis-
14 trict of Columbia or of any territory or possession, and
15 exclusive original jurisdiction is hereby conferred on
16 such district courts to determine such controversies
17 without regard to the amount in controversy, except
18 that no attachment, injunction, garnishment, or other
19 similar process, mesne or final, shall be issued against
20 the Corporation or its property. Any suit against the
21 Corporation shall be brought in the District of Colum-
22 bia, or in the district in which the plaintiff resides or is
23 engaged in business. The Corporation may, in addition,
24 intervene in any other court in any suit, action, or pro-
25 ceeding in which it has an interest;

1 (e) may adopt, amend, and repeal bylaws, rules,
2 and regulations governing the manner in which its
3 business may be conducted and the powers vested in it
4 by law may be exercised;

5 (f) shall be entitled to use the United States mails
6 in the same manner as the other executive agencies of
7 the Federal Government;

8 (g) with the consent of any board, commission, in-
9 dependent establishment, or executive department of
10 the Federal Government, including any field service
11 thereof, may avail itself of the use of information, serv-
12 ices, facilities, officials, and employees thereof in carry-
13 ing out the provisions of this Act;

14 (h) may conduct researches, surveys, and investi-
15 gations relating to protection of farmers against loss of
16 production and shall assemble data for the purpose of
17 establishing actuarial bases for such protection;

18 (i) shall determine the character and necessity for
19 its expenditures under this Act and the manner in
20 which they shall be incurred, allowed, and paid, with-
21 out regard to the provisions of any other laws govern-
22 ing the expenditure of public funds, and such determi-
23 nations shall be final and conclusive upon all other
24 officers of the Government; and

1 (j) shall have such powers as may be necessary or
2 appropriate for the exercise of the powers herein spe-
3 cifically conferred on the Corporation and all such inci-
4 dental powers as are customary in corporations
5 generally.

6

PERSONNEL

7 SEC. 8. (a) The Secretary shall appoint such officers and
8 employees as may be necessary for the transaction of the
9 business of the Corporation pursuant to civil service laws and
10 regulations, fix their compensation in accordance with the
11 provisions of chapter 51 and subchapter III of chapter 53 of
12 title 5 of the United States Code, define their authority and
13 duties, delegate to them such of the powers vested in the
14 Corporation as the Secretary may determine, require bond of
15 such of them as the Secretary may designate, and fix the
16 penalties and pay the premiums of such bonds, except that
17 the Secretary is authorized to appoint county representatives
18 and personnel paid by the hour, day, or month when actually
19 employed, and fix the compensation of such county repre-
20 sentatives and personnel without regard to civil service laws
21 and regulations or chapter 51 or subchapter III of chapter 53
22 of title 5 of the United States Code.

23 (b) Insofar as applicable, the benefits of chapter 81 of
24 title 5 of the United States Code shall extend to persons
25 given employment under the provisions of this Act.

1 (c) The Secretary may allot to bureaus and offices of the
2 Department of Agriculture or transfer to such other agencies
3 of the State and Federal Governments as the Secretary may
4 request to assist in carrying out this Act any funds made
5 available pursuant to the provisions of section 17 of this Act,
6 except that employees or agencies responsible for administer-
7 ing this Act in each county shall be selected and designated
8 by the Corporation and shall be responsible directly to the
9 Corporation without the intervention of any intermediate
10 office or agency.

11 (d) In carrying out the provisions of this Act, the Board
12 may, in its discretion, utilize producer-owned and producer-
13 controlled cooperative associations.

14 FARM PRODUCTION PROTECTION

15 SEC. 9. To carry out the purpose of this Act, the Corpo-
16 ration is authorized and empowered:

17 (a) Commencing with farm production initiated in calen-
18 dar year 1981 and if sufficient actuarial data are available as
19 determined by the Board, to provide producers of agricultural
20 products with protection against loss of production, under
21 any plan or plans of protection determined by the Board to be
22 adapted to any such agricultural products, subject to the limi-
23 tations herein. Such protection shall be against loss of pro-
24 duction due to unavoidable natural causes, including, but not
25 limited to, drought, flood, hail, wind, frost, winterkill, light-

1 ning, fire, excessive rain, snow, wildlife, hurricane, tornado,
2 insect infestation, animal disease, plant disease, and such
3 other unavoidable natural causes as may be determined by
4 the Board. Any protection offered against loss of production
5 shall not cover in excess of production costs for the producer
6 for the production that was lost. Protection provided under
7 this subsection shall not cover loss of production due to the
8 neglect or malfeasance of the producer, or to failure of the
9 producer to follow established good farming practices and
10 appropriate conservation practices. In determining the agri-
11 cultural products on which such protection against loss of
12 production is to be offered, the Board shall take into con-
13 sideration the demand of farmers of such protection and the
14 extent to which such protection is commercially available to
15 producers. The Board may refuse protection against loss of
16 production as authorized by this subsection with respect to an
17 agricultural product in any county or area or on any farm not
18 suited to the production of such agricultural product and may
19 limit or refuse such protection in any county with respect to
20 which it is administratively impractical to establish a county
21 program, except that such protection may be offered to pro-
22 ducers on farms situated in a local producing area bordering
23 on a county in which a program has been established. The
24 Corporation shall report annually to Congress the results of

1 its operations as to each agricultural product for which pro-
2 tection under this subsection is provided.

3 (b) To fix adequate premiums for protection against loss
4 of production, at such rates as the Board deems sufficient to
5 cover claims for normal production losses. Catastrophic pro-
6 duction losses shall not be included in experience data used in
7 rating risks and fixing premium rates. Such premiums shall
8 be collected at such time or times, or shall be secured in such
9 manner, as the Board may determine.

10 (c) With the advice and consent of the Secretary, to
11 charge the Agricultural Disaster Relief Fund provided for in
12 section 17(b) of this Act for the purposes of covering that
13 part of claims in excess of premium income whenever such
14 claims involve catastrophic production losses in a county or
15 area and for the purpose of reimbursing the Corporation for
16 administrative and operating expenses, interest, and the
17 direct costs of loss adjustments incurred in paying claims for
18 catastrophic production losses.

19 (d) To adjust and pay claims for losses, including both
20 normal production losses and catastrophic production losses,
21 under rules prescribed by the Board. In the event that any
22 claim for losses under the provisions of this Act is denied by
23 the Corporation, an action on such claim may be brought
24 against the Corporation under the provisions of section 7(d)
25 of this Act, except that no suit on such claim shall be allowed

1 under this section unless the suit is brought within one year
2 after the date when notice of denial of the claim is mailed to
3 and received by the claimant.

4 (e) To issue contracts and regulations relating thereto,
5 the terms and provisions of which shall be binding on the
6 contractual parties.

7 (f) To compromise claims brought by or against the Cor-
8 poration.

9 (g) To collect and receive premiums and expend such
10 premiums for payment of loss claims and for such other pur-
11 poses consistent with the Act, as determined by the Board.

12 (h) Notwithstanding any other provision of the Act, is
13 hereby authorized, under such terms and conditions as it
14 deems consistent with sound reinsurance principles, to pro-
15 vide reinsurance on any crop or plantation insurance provided
16 in Puerto Rico by a duly authorized agency of the Common-
17 wealth of Puerto Rico, except that no application for reinsur-
18 ance authorized herein shall be approved unless the Corpora-
19 tion shall have determined that the reinsurance deemed nec-
20 essary is not available from recognized private sources at
21 reasonable cost.

22 (i) Notwithstanding any other provision of law, is au-
23 thorized to provide reinsurance on any crop insurance pro-
24 vided by private insurance companies, in not to exceed

1 twenty counties and under such terms and conditions as it
2 deems consistent with sound reinsurance principles.

3 INDEMNITIES EXEMPT FROM LEVY

4 SEC. 10. Claims for indemnities under this Act shall not
5 be liable to attachment, levy, garnishment, or any other legal
6 process before payment to the person protected under this
7 Act or to deduction on account of the indebtedness of the
8 person or such person's estate to the United States except
9 claims of the United States or the Corporation arising under
10 this Act.

11 DEPOSIT OF FUNDS

12 SEC. 11. All money of the Corporation not otherwise
13 employed may be deposited with the Treasurer of the United
14 States or in any bank approved by the Secretary of the
15 Treasury, subject to withdrawal by the Corporation at any
16 time, or, with the approval of the Secretary of the Treasury,
17 may be invested in obligations of the United States or in
18 obligations guaranteed as to principal and interest by the
19 United States. Subject to the approval of the Secretary of the
20 Treasury, the Federal Reserve banks are hereby authorized
21 and directed to act as depositories, custodians, and fiscal
22 agents for the Corporation in the performance of its powers
23 conferred by this Act.

1 TAX EXEMPTION

2 SEC. 12. The Corporation, including its franchise, its
3 capital, reserves, and surplus, and its income and property,
4 shall be exempt from all taxation now or hereafter imposed
5 by the United States or by any territory, dependency, or pos-
6 session hereof, or by any State, county, municipality, or local
7 taxing authority.

8 FISCAL AGENT OF THE GOVERNMENT

9 SEC. 13. When designated for that purpose by the Sec-
10 retary of the Treasury, the Corporation shall be a depository
11 of public money, except receipts from customs, under such
12 regulations that may be prescribed by the Secretary of the
13 Treasury, and it may also be employed as a financial agent of
14 the Federal Government; and it shall perform all such rea-
15 sonable duties as a depository of public money and financial
16 agent of the Federal Government as may be required of it.

17 ACCOUNTING BY THE CORPORATION

18 SEC. 14. The Corporation shall at all times maintain
19 complete and accurate books of account and shall file annual-
20 ly with the Secretary a complete report as to the business of
21 the Corporation. The financial transactions of the Corpora-
22 tion shall be audited at least once each year by the General
23 Accounting Office for the sole purpose of making a report to
24 Congress, together with such recommendations as the Comp-
25 troller General of the United States may deem advisable,

1 except that such report shall not be made until the Corpora-
2 tion shall have had reasonable opportunity to examine the
3 exceptions and criticisms of the Comptroller General or the
4 General Accounting Office, to point out errors therein, ex-
5 plain or answer the same, and to file a statement which shall
6 be submitted by the Comptroller General with the Comptrol-
7 ler General's report.

8

CRIMES AND OFFENSES

9 SEC. 15. (a) All the general penal statutes relating to
10 crimes and offenses against the United States shall apply
11 with respect to the Corporation, its property, money, con-
12 tracts and agreements, employees, and operations, except
13 that the provisions of section 22 of title 41 of the United
14 States Code shall not apply to any agreements made under
15 this Act.

16 (b) Chapter 645 of the Act of June 25, 1948 (62 Stat.
17 729, as amended; 18 U.S.C. 657, 658, 1006, 1014, and
18 1903) is amended by—

19 (1) striking out "Federal Crop Insurance Corpora-
20 tion" wherever it appears therein and inserting in lieu
21 thereof "Farm Production Protection Corporation";
22 and

23 (2) striking out "crop insurance" and inserting in
24 lieu thereof "farm production protection".

1 (c) If at any time a person who has been provided farm
2 production protection under a contract or agreement with the
3 Corporation issued pursuant to this Act misrepresents or in-
4 tententionally conceals any material fact or commits any fraud
5 relating to such contract or agreement, the Corporation is
6 authorized to void such contract or agreement without affect-
7 ing the liability of such person for premiums or waiving any
8 right, including the right to collect any unpaid premium.
9 Such voidance shall become effective at the beginning of the
10 production period for the product with respect to which any
11 such misrepresentation, concealment, or fraud occurred.

12 (d) No individual, association, partnership, corporation,
13 or other person shall use the term "Farm Production Protec-
14 tion Corporation", or any combination of the same, or the
15 term "Federal Crop Insurance Corporation", or any combi-
16 nation of the same, as the name or a part thereof under
17 which such individual, association, partnership, corporation,
18 or person does, or purports to do, business. Any individual,
19 association, partnership, corporation, or other person who
20 violates this prohibition shall be guilty of a misdemeanor and
21 shall, on conviction thereof, be subject to imprisonment for
22 not more than one year, a fine of not more than \$1,000, or
23 both such imprisonment and fine.

1 against production loss due to prevention of planting or other
2 initiation of production, and (2) individual risk underwriting.
3 Such report shall be transmitted by the Secretary to the
4 House Committee on Agriculture and the Senate Committee
5 on Agriculture, Nutrition, and Forestry.

6 APPROPRIATIONS AND AGRICULTURAL DISASTER RELIEF
7 FUND

8 SEC. 17. (a) There are hereby authorized to be appro-
9 priated annually such sums as may be necessary to cover the
10 operating and administrative costs of the Corporation, includ-
11 ing direct costs of loss adjustment and agent commissions,
12 which shall be allotted to the corporation in such amounts
13 and at such times as the Secretary may determine.

14 (b) There is hereby established in the Treasury of the
15 United States a fund to be known as the "Agricultural Disas-
16 ter Relief Fund". The Secretary is hereby authorized to
17 borrow funds from the Treasury on behalf of the Corporation
18 for deposit in the Agricultural Disaster Relief Fund. The
19 Corporation is hereby authorized to expend monies from the
20 Agricultural Disaster Relief Fund, with the advice and con-
21 sent of the Secretary for the purposes set out in section 9(c)
22 of this Act. There are hereby authorized to be appropriated
23 such sums as may be necessary to repay principal and inter-
24 est on amounts borrowed from the Treasury of the United
25 States under this subsection. Such appropriated funds shall

1 under any program of the Department of Agriculture other
2 than the production protection program authorized by this
3 Act in any county of any State in which production protec-
4 tion under this Act is offered for such agricultural product.

5 INDEMNITIES EXEMPT FROM INTEREST

6 SEC. 20. Notwithstanding any other provision of this
7 Act, the Corporation shall not be liable or obligated to pay
8 interest on claims for losses authorized under this Act.

9 PERSONS UNDER TWENTY-ONE YEARS OF AGE

10 SEC. 21. Notwithstanding any other provision of law,
11 no person shall be denied protection under this Act solely on
12 the ground that he or she is under twenty-one years of age if
13 he or she (a) has a bona fide protectable interest in an agri-
14 cultural product as an owner-operator, landlord, tenant, or
15 sharecropper, and (b) has an acceptable co-signer for the pro-
16 tection contract. Any such person who enters into a farm
17 production protection contract shall be subject to the same
18 legal liabilities and have the same legal rights with respect to
19 such contract as any person over the age of twenty-one
20 years.

21 TRANSFERS OF ASSETS AND LEGAL RIGHTS AND
22 LIABILITIES OF FEDERAL CROP INSURANCE CORPORATION

23 SEC. 22. (a) The assets, funds, property, records, and
24 policyholders of the Federal Crop Insurance Corporation are
25 hereby transferred to the Corporation. The rights, privileges,

1 and powers, and the duties and liabilities of the Federal Crop
2 Insurance Corporation, in respect to any contract, agree-
3 ment, loan, account, or other obligation shall become the
4 rights, privileges, and powers, and the duties and liabilities,
5 respectively of the Corporation. The enforceable claims of or
6 against the Federal Crop Insurance Corporaton shall become
7 the claims of or against, and may be enforced by or against,
8 the Corporation, except that nothing in this Act shall limit or
9 extend any period of limitation otherwise applicable to such
10 claims of the Corporation.

11 (b) All orders, determinations, rules, regulations, con-
12 tracts, certificates, and privileges which—

13 (1) have been issued, made, granted, or allowed to
14 become effective in the exercise of any functions trans-
15 ferred by this Act, and

16 (2) are in effect at the time this Act takes effect,
17 shall continue in effect according to their terms until modi-
18 fied, terminated, superseded, set aside, or repealed by the
19 Corporation, by any court of competent jurisdiction, or by
20 operation of law.

21 DISSOLUTION OF FEDERAL CROP INSURANCE

22 CORPORATION

23 SEC. 23. (a) The Secretary, representing the United
24 States as sole owner of the capital stock of the Federal Crop
25 Insurance Corporation, is hereby authorized and directed to

1 institute or cause to be instituted such proceedings as are
2 required for the dissolution of the Federal Crop Insurance
3 Corporation under United States law. The costs of such dis-
4 solution of the Federal Crop Insurance Corporation shall be
5 borne by the Corporation.

6 (b)(1) Except as provided in paragraph (2) of this sub-
7 section, the provisions of subsection (a) of this section shall
8 not affect suits or other proceedings commenced by or
9 against the Federal Crop Insurance Corporation prior to the
10 effective date of this Act.

11 (2) All such suits or other proceedings pending on the
12 date of the dissolution of the Federal Crop Insurance Corpo-
13 ration shall be continued after such date by or against the
14 Corporation. In any litigation pending on the effective date of
15 this Act, the court may, at any time, on its own motion or
16 that of any party, enter such order as the court determines
17 necessary to give effect to the provisions of this subsection.

18 REPEAL OF FEDERAL CROP INSURANCE ACT

19 SEC. 24. Title V of the Agricultural Adjustment Act of
20 1938, known as the Federal Crop Insurance Act, is hereby
21 repealed.

22 REGULATIONS

23 SEC. 25. The Secretary and the Corporation, respec-
24 tively, are authorized to issue such regulations as may be
25 necessary to carry out the provisions of this Act.

1 America, payment for which shall, with the approval of the
2 Secretary of Agriculture, be subject to call in whole or in
3 part by the Board of Directors of the Corporation.”.

4 BOARD OF DIRECTORS—COMPENSATION AND
5 REIMBURSEMENT FOR TRAVEL EXPENSES

6 SEC. 3. The second sentence of section 505(c) of the
7 Federal Crop Insurance Act is amended to read as follows:
8 “The members of the Board who are not employed by the
9 Government shall be paid such compensation for their serv-
10 ices as directors as the Secretary of Agriculture shall deter-
11 mine, but such compensation shall not exceed the daily
12 equivalent of the rate prescribed for grade GS-18 in section
13 5332 of title 5, United States Code, when actually employed,
14 and shall be allowed travel expenses, including per diem in
15 lieu of subsistence, as authorized under section 5703 of title
16 5, United States Code, for persons in the Government service
17 employed intermittently.”.

18 PERSONNEL

19 SEC. 4. Section 507 of the Federal Crop Insurance Act
20 is amended by—

21 (1) striking out “, and county crop insurance com-
22 mitteemen” in subsection (a);

23 (2) striking out the comma immediately after
24 “title” in subsection (b) and all that follows down

1 through the end of subsection (b) and inserting in lieu
2 thereof a period;

3 (3) striking out subsection (c) in its entirety;

4 (4) redesignating subsection (d) as subsection (c)
5 and amending such subsection (as redesignated) to read
6 as follows:

7 “(c) The Corporation may contract with, and transfer
8 funds to, other agencies and offices of the Department of Ag-
9 riculture or the county committees established under section
10 8 of the Soil Conservation and Domestic Allotment Act for
11 assistance in implementing this title; but any employees of
12 such other agencies and offices responsible for performing
13 functions under this title shall be responsible directly to the
14 Corporation without the intervention of any intermediate
15 office or agency.”; and

16 (5) redesignating subsection (e) as subsection (d).

17 CROP INSURANCE PROGRAM FOR 1980 AND SUBSEQUENT

18 CROP YEARS

19 SEC. 5. Effective beginning with the 1980 crop year,
20 section 508 of the Federal Crop Insurance Act is amended to
21 read as follows:

22 “CROP INSURANCE

23 “SEC. 508. To achieve the purposes of this title, the
24 Corporation—

1 “(a)(1) shall for the 1980 and subsequent crop years
2 insure producers of agricultural crops wherever grown com-
3 mercially, as determined by the Board, subject to the limita-
4 tions herein. The insurance for any agricultural crop shall be
5 offered under any plan or plans determined by the Board to
6 be adapted to the agricultural crop. Such insurance shall be
7 against loss of the insured agricultural crop due to one or
8 more unavoidable causes, including drought, flood, wind,
9 frost, winterkill, excessive rain, snow, wildlife, hurricane, tor-
10 nado, insect infestation, plant disease, and such other un-
11 avoidable causes, other than hail, lightning, or fire, as may be
12 determined by the Board: *Provided*, That such insurance
13 shall not extend beyond the period the insured agricultural
14 crop is in the field. Any insurance offered against loss in yield
15 shall not cover more than 75 per centum of the average yield
16 for a representative period of years for a farm, or area in
17 which the farm is located, as determined by the Corporation
18 on the basis of recorded or appraised yields, subject to such
19 adjustments as may be necessary to the end that the average
20 yield fixed for farms in the same area, which are subject to
21 the same conditions, may be fair and just. Insurance provided
22 under this subsection shall not cover losses due to the neglect
23 or malfeasance of the producer, or to the failure of the pro-
24 ducer to reseed to the same agricultural crop in areas and
25 under circumstances where the Corporation determines it

1 was practical to so reseed, or to the failure of the producer to
2 follow established good farming practices. Beginning with the
3 1983 crop year, the Board may limit or refuse insurance in
4 any county or area, or on any farm, on the basis of the insur-
5 ance risk involved. For each agricultural crop insured, the
6 Corporation shall not offer insurance on any acreage not
7 suited to the production of such agricultural crop or in any
8 county where the planted acreage of such agricultural crop is
9 below a minimum county acreage as established by the Cor-
10 poration, except that it may, if it is deemed practical to do so,
11 offer insurance on acreage in such county through the office
12 serving another county that meets the minimum requirement.
13 The Corporation shall report annually to Congress the
14 results of its operations on each agricultural crop insured.

15 “(2) may insure producers against losses that they may
16 incur when they are unable to plant an agricultural crop be-
17 cause of weather conditions. Insurance issued under author-
18 ity of this paragraph shall be subject to the applicable provi-
19 sions of paragraph (1) of this subsection.

20 “(b) shall fix adequate premiums for insurance at such
21 rates as the Board deems sufficient to cover all direct and
22 indirect costs of acquisition, loss adjustment, crop inspection,
23 actuarial, underwriting, and administration costs, and claims
24 for crop losses on such insurance, and establish as expedi-
25 tiously as possible a reasonable reserve against unforeseen

1 losses. For the purpose of encouraging the broadest possible
2 participation in the Federal crop insurance program, not ex-
3 ceeding 50 per centum of each participant's calculated premi-
4 um shall be paid by the Federal Government. The remaining
5 portion of the premium shall be paid by each participant and
6 such premiums shall be collected at such time or times and
7 shall be secured in such manner as the Board may determine.

8 “(c) may adjust and pay claims for losses under rules
9 prescribed by the Board. In the event that any claim for in-
10 demnity under the provisions of this title is denied by the
11 Corporation, an action on such claims may be brought
12 against the Corporation in the United States district court, or
13 in any court of record of the State having general jurisdic-
14 tion, sitting in the district or county in which the insured
15 farm is located, and jurisdiction is hereby conferred upon
16 such district courts to determine such controversies without
17 regard to the amount in controversy: *Provided*, That no suit
18 on such claim shall be allowed under this section unless the
19 same shall have been brought within one year after the date
20 when notice of denial of the claim by registered mail is sent
21 to the claimant.

22 “(d) may provide, upon such terms and conditions as the
23 Board may determine to be consistent with subsection (b) of
24 this section and sound reinsurance principles, reinsurance to
25 private insurance companies, or groups or pools of such com-

1 panies, that insure producers of any agricultural crop under
2 contracts acceptable to the Corporation: *Provided*, That no
3 application for reinsurance shall be approved unless the Cor-
4 poration shall have determined that the reinsurance deemed
5 necessary is not available from recognized private sources at
6 reasonable cost.”.

7 ADVISORY COMMITTEE—COMPENSATION AND
8 REIMBURSEMENT FOR TRAVEL EXPENSES

9 SEC. 6. The second sentence of section 515 of the Fed-
10 eral Crop Insurance Act is amended to read as follows: “The
11 compensation of the members of such committee shall be de-
12 termined by the Board, but shall not exceed the daily equiva-
13 lent of the rate prescribed for grade GS-18 in section 5332
14 of title 5, United States Code, when actually employed, and
15 be allowed travel expenses, including per diem in lieu of sub-
16 sistence, as authorized under section 5703 of title 5, United
17 States Code, for persons in the Government service em-
18 ployed intermittently.”.

19 FUNDING AND REGULATIONS

20 SEC. 7. Effective October 1, 1980, section 516 of the
21 Federal Crop Insurance Act is amended to read as follows:

22 “FUNDING AND REGULATIONS

23 “SEC. 516. (a) There is hereby created within the
24 United States Treasury a separate fund (hereafter in this sec-
25 tion referred to as the ‘fund’) that shall be available to the

1 Corporation without fiscal year limitation as a revolving fund
2 for achieving the purposes of this title. A business-type
3 budget for the fund shall be prepared, transmitted to Con-
4 gress, considered, and enacted in the manner prescribed by
5 sections 102, 103, and 104 of the Government Corporation
6 Control Act for wholly owned Government corporations.

7 “(b)(1) There are authorized to be appropriated to the
8 fund such amounts as may be necessary to restore the ex-
9 penses of the Corporation for Federal premium payments and
10 redemption of notes or obligations issued under subsection (c)
11 of this section. All amounts received by the Corporation as
12 premiums, fees, and other moneys, property, or assets de-
13 rived by it from its operations in connection with this title
14 shall be deposited in the fund.

15 “(2) All expenses, including reimbursements to other
16 Government accounts, and payments pursuant to operations
17 of the Corporation under this title shall be paid from the fund.
18 From time to time, and at least at the close of each fiscal
19 year, the Corporation shall pay from the fund into the Treas-
20 ury as miscellaneous receipts interest on its outstanding capi-
21 tal stock and outstanding borrowings from the Treasury, less
22 the average undisbursed cash balance in the fund during the
23 year and Federal premium payments due the Corporation.
24 The rate of such interest shall be determined by the Secre-
25 tary of the Treasury and shall be not less than a rate deter-

1 mined by taking into consideration the average market yield
2 during the month preceding each fiscal year on outstanding
3 marketable obligations of the United States with comparable
4 maturities. Interest payments may be deferred with the ap-
5 proval of the Secretary of the Treasury, but any interest pay-
6 ments so deferred shall themselves bear interest. If at any
7 time the Corporation determines that moneys in the fund
8 exceed the present and any reasonably prospective future re-
9 quirements of the fund, such excess may be transferred to the
10 general fund of the Treasury.

11 “(c) If at any time the moneys available in the fund are
12 insufficient to enable the Corporation to discharge its respon-
13 sibilities under this title, it shall issue to the Secretary of the
14 Treasury notes or other obligations in such forms and de-
15 nominations, bearing such maturities, and subject to such
16 terms and conditions, as may be prescribed by the Secretary
17 of the Treasury. Redemption of such notes or obligations
18 shall be made by the Corporation from appropriations or
19 other moneys available under subsection (b) of this section.
20 Such notes or other obligations shall bear interest at a rate
21 determined by the Secretary of the Treasury, which shall be
22 not less than a rate determined by taking into consideration
23 the average market yield on outstanding marketable obliga-
24 tions of the United States with comparable maturities during
25 the month preceding the issuance of the notes or other obli-

1 gations. The Secretary of the Treasury shall purchase any
2 note or other obligation issued hereunder for that purpose.
3 The Secretary of the Treasury is authorized to use as a
4 public debt transaction the proceeds from the sale of any se-
5 curities issued under the Second Liberty Bond Act and the
6 purposes for which securities may be issued under that Act
7 are extended to include any purchase of such notes or obliga-
8 tions. The Secretary of the Treasury may at any time sell
9 any note or other obligation acquired by the Secretary of the
10 Treasury under this subsection. All redemptions, purchases,
11 and sales by the Secretary of the Treasury of such notes or
12 other obligations shall be treated as public debt transactions
13 of the United States.

14 “(d) The Secretary of Agriculture and the Corporation,
15 respectively, are authorized to issue such regulations as may
16 be necessary to implement the provisions of this title.”.

17 DEFINITION OF “AGRICULTURAL CROP”

18 SEC. 8. Section 518 of the Federal Crop Insurance Act
19 is amended by striking out “SEC. 518. ‘Agricultural com-
20 modity’,” and inserting in lieu thereof “SEC. 518. ‘Agricul-
21 tural crop’,”.

1 MANAGEMENT OF FEDERAL CROP INSURANCE
2 CORPORATION

3 SEC. 2. Section 505 of the Federal Crop Insurance
4 Act is amended to read as follows:

5 "MANAGEMENT OF CORPORATION

6 "SEC. 505. (a) The management of the Corporation
7 shall be vested in a Board of Directors (hereinafter called the
8 'Board') subject to the general direction and supervision of
9 the Secretary of Agriculture. The Board shall consist of the
10 manager of the Corporation, two other persons employed in
11 the Department of Agriculture (including a person whose
12 duties include providing services to consumers), one person
13 experienced in the insurance business who is not otherwise
14 employed by the Federal Government, and three active farm-
15 ers who are not otherwise employed by the Federal Govern-
16 ment. The Board shall be appointed by, and hold office at the
17 pleasure of, the Secretary of Agriculture. The Secretary of
18 Agriculture shall not be a member of the Board.

19 "(b) Vacancies in the Board so long as there shall be
20 four members in office shall not impair the powers of the
21 Board to execute the functions of the Corporation, and four
22 of the members in office shall constitute a quorum for the
23 transaction of the business of the Board.

24 "(c) The Directors of the Corporation who are employed
25 in the Department of Agriculture shall receive no additional

1 compensation for their services as directors, but may be al-
2 lowed necessary traveling and subsistence expenses when en-
3 gaged in the business of the Corporation away from their
4 duty stations. The Directors of the Corporation who are not
5 employed by the Federal Government shall be paid such
6 compensation for their services as directors as the Secretary
7 of Agriculture shall determine, but such compensation shall
8 not exceed the daily equivalent of the rate prescribed for
9 grade GS-18 in section 5332 of title 5 of the United States
10 Code per day when actually employed and actual necessary
11 traveling and subsistence expenses, or a per diem allowance
12 in lieu of subsistence expenses, as authorized by section 5703
13 of title 5 of the United States Code for persons in Govern-
14 ment service employed intermittently, when on business of
15 the Corporation away from their homes or regular places of
16 business.

17 “(d) The manager of the Corporation shall be its chief
18 executive officer, with such power and authority as may be
19 conferred on the manager by the Board. The manager shall
20 be appointed by, and hold office at the pleasure of, the Secre-
21 tary of Agriculture.”.

22 FEDERAL CROP INSURANCE CORPORATION—PERSONNEL

23 SEC. 3. Section 507 of the Federal Crop Insurance
24 Act is amended by—

1 (1) striking out “, and county crop insurance com-
2 mitteemen” in subsection (a);

3 (2) striking out the comma after the word “title”
4 in subsection (b) and all that follows down through the
5 end of subsection (b) and inserting in lieu thereof a
6 period;

7 (3) striking out subsection (c) in its entirety;

8 (4) redesignating subsection (d) as subsection (c)
9 and amending such subsection (as redesignated) to read
10 as follows:

11 “(c) The Corporation may contract with, and transfer
12 funds to, other agencies and offices of the Department of Ag-
13 riculture, or the county committees established pursuant to
14 section 8(b) of the Soil Conservation and Domestic Allotment
15 Act, as amended, for assistance in carrying out this title:
16 *Provided*, That any employees of such other agencies and
17 offices responsible for performing functions under this title
18 shall be responsible directly to the Corporation without the
19 intervention of any intermediate office or agency.”; and

20 (5) redesignating subsection (e) as subsection (d).

21 FEDERAL CROP INSURANCE PROGRAM

22 SEC. 4. Section 508 of the Federal Crop Insurance Act
23 is amended by—

24 (1) amending subsection (a) by—

25 (A) inserting “(1)” immediately after “(a)”;

1 (B) inserting immediately after "Commencing
2 with crops planted for harvest in 1948" the fol-
3 lowing: "and terminating with, but including,
4 crops planted for harvest in 1980";

5 (C) adding at the end thereof a new para-
6 graph as follows:

7 "(2) With respect to crops planted for harvest and other
8 agricultural production initiated in 1981 through 1985—

9 "(A) if sufficient actuarial data are available, to
10 insure producers of agricultural commodities wherever
11 such commodities are produced commercially, subject
12 to the limitations herein, at such time as the Board de-
13 termines that insurance on any such commodity has
14 been developed to the point that it can be offered to
15 the producers thereof. Such insurance shall, for any
16 commodity, be offered under any plan or plans deter-
17 mined by the Board to be adapted to the commodity.
18 Such insurance shall be against loss of the insured
19 commodity due to unavoidable causes, including
20 drought, flood, hail, wind, frost, winterkill, lightning,
21 fire, excessive rain, snow, wildlife, hurricane, tornado,
22 insect infestation, plant disease, and such other un-
23 avoidable causes as may be determined by the Board:
24 *Provided*, That, with respect to field crops insured
25 under this title, such insurance shall not, except in the

1 case of tobacco, extend beyond the period the insured
2 crop is in the field. Any insurance offered against loss
3 shall not cover in excess of the cost of production for
4 the producer for the agricultural commodity insured, as
5 determined by the Board pursuant to the provisions of
6 section 521 of this title. Insurance provided under this
7 subsection shall not cover losses due to the neglect or
8 malfeasance of the producer, or to the failure of the
9 producer to reseed to the same crop in areas and under
10 circumstances where the Corporation determines it was
11 practical to so reseed, or to the failure of the producer
12 to follow established good farming practices. The
13 Board may limit or refuse insurance in any county or
14 area, or on any farm, on the basis of the insurance risk
15 involved. For each commodity involved, the Corpora-
16 tion shall not offer insurance in any area not suited to
17 the production of such commodity or in any county
18 where the production of such commodity is below a
19 minimum county production level as established by the
20 Corporation, except that the Corporation may, if it is
21 deemed practical to do so, offer insurance on a com-
22 modity in a county in which production falls below
23 such level through the office serving another county
24 which meets the minimum requirement. The Corpora-

1 tion shall report annually to Congress the results of its
2 operations on each commodity insured.

3 “(B) to insure producers against actual losses they
4 may incur when they are unable to plant any noncon-
5 serving agricultural crop to harvest on all or any por-
6 tion of their farm acreage during any twelve month
7 period because of a flood. Insurance issued under au-
8 thority of this subparagraph shall be subject to the ap-
9 plicable provisions of subparagraph (A) of this para-
10 graph.”;

11 (2) amending subsection (b) to read as follows:

12 “(b) To fix adequate premiums for insurance at such
13 rates as the Board deems sufficient to cover claims for losses
14 on such insurance and to establish as expeditiously as possi-
15 ble a reasonable reserve against unforeseen losses. For the
16 purpose of encouraging the broadest possible participation in
17 the crop insurance program, effective beginning on January
18 1, 1981, and only with respect to crops planted for harvest
19 and other agricultural production initiated in 1981 through
20 1985, not to exceed 33⅓ per centum of each participant’s
21 calculated premium shall, to the extent that funds therefor
22 are available to be paid by the Federal Government; and the
23 remaining portion of each such premium shall be paid by the
24 participant. Premiums shall be collected at such time or times

1 and shall be secured in such manner, as the Board may de-
2 termine.”;

3 (3) in subsection (c), striking out “in the agricul-
4 tural commodity or in cash, under rules prescribed by
5 the Board: *Provided*, That indemnities may be deter-
6 mined on the same price basis as premiums are deter-
7 mined for the crop with respect to which such indemni-
8 ties are paid. The Corporation shall provide for the
9 posting annually in each county at the county court-
10 house of a list of the indemnities paid for losses on
11 farms in such county.” and substituting in lieu thereof
12 the following: “under rules prescribed by the Board.”;

13 (4) striking out subsection (d) in its entirety and
14 substituting in lieu thereof the following:

15 “(d) And directed, through the 1985 crop year and in
16 addition to providing reinsurance pursuant to subsection (f) of
17 this section, to offer, under such terms and conditions as it
18 deems consistent with sound reinsurance principles, reinsur-
19 ance on multiple peril crop insurance risks, subject to the
20 limitations of this title, in a sufficient number of counties to
21 enable the Corporation to accumulate reliable data for an
22 evaluation of the potential of a nationwide program of Feder-
23 al reinsurance of crop insurance.”; and

24 (5) inserting in subsection (f) immediately after
25 “Notwithstanding any other provision of this title” the

1 following: "and effective only through the 1985 crop
2 year".

3 COMPENSATION OF THE CROP INSURANCE ADVISORY

4 COMMITTEE

5 SEC. 5. The second sentence of section 515 of the Fed-
6 eral Crop Insurance Act is amended to read as follows: "The
7 compensation of the members of such committee shall be de-
8 termined by the Board, but shall not exceed the daily equiva-
9 lent of the rate prescribed for grade GS-18 in section 5332
10 of title 5 of the United States Code when actually employed
11 and actual necessary traveling and subsistence expenses, or a
12 per diem allowance in lieu of subsistence expenses, as author-
13 ized under section 5703 of title 5 of the United States Code
14 for persons in the Government service employed intermit-
15 tently."

16 FEDERAL CROP INSURANCE ACT—APPROPRIATIONS AND

17 REGULATIONS

18 SEC. 6. Section 516 of the Federal Crop Insurance Act
19 is amended to read as follows:

20 "APPROPRIATIONS AND REGULATIONS

21 "SEC. 516. (a) There are hereby authorized to be appro-
22 priated such sums, not in excess of \$12,000,000 for each
23 fiscal year beginning after June 30, 1938, through the fiscal
24 year ending on September 30, 1980, as may be necessary to
25 cover the operating and administrative costs of the Corpora-

1 tion, which shall be allotted to the Corporation in such
2 amounts and at such time or times as the Secretary of Agri-
3 culture may determine: *Provided*, That expenses in connec-
4 tion with the purchase, transportation, handling, or sale of
5 the agricultural commodity and the direct cost of loss adjust-
6 ers for crop inspections and loss adjustments may be consid-
7 ered by the Corporation as being nonadministrative or nonop-
8 erating expenses for the purpose of such appropriations. The
9 Corporation is authorized to use premium income for admin-
10 istrative and operating costs within limits prescribed in appli-
11 cable appropriations made after June 30, 1938, and before
12 September 30, 1980.

13 “(b) There are further authorized to be appropriated
14 such sums for each fiscal year beginning after September 30,
15 1980, as may be necessary to cover the operating and admin-
16 istrative costs of the Corporation, including the direct cost to
17 the Corporation of loss adjusters for crop inspection and loss
18 adjustments, and principal and interest on the debts of the
19 Corporation, which shall be allotted to the Corporation in
20 such amounts and at such time or times as the Secretary of
21 Agriculture may determine.

22 “(c)(1) There is hereby identified in the United States
23 Treasury a separate fund of \$5,000,000 (hereinafter in this
24 subsection called “the fund”) which shall be available to the
25 Corporation without fiscal year limitation as a revolving fund

1 for its use of covering Federal premium payments authorized
2 under section 8(b) of this title.

3 “(2) There are hereby authorized to be appropriated,
4 from time to time, such amounts as may be necessary to
5 restore the fund when it has been reduced by the Federal
6 premium payments made pursuant to section 8(b) of this title.

7 “(3) If at any time the Board determines that moneys in
8 the fund exceed any present and any reasonably expected
9 future requirements of the fund, such excess may be trans-
10 ferred to the general fund of the Treasury.

11 “(d) If at any time the moneys available to the Corpora-
12 tion from premium income and the Corporation’s reserve for
13 losses are insufficient to enable the Corporation to indemnify
14 all outstanding claims for proven losses, the Corporation is
15 authorized to issue to the Secretary of the Treasury, for the
16 purpose of obtaining additional funds to cover such claims,
17 notes, or other obligations in such forms and denominations,
18 bearing such maturities, and subject to such terms and condi-
19 tions, as may be prescribed by the Secretary of the Treasury:
20 *Provided*, That at no time may the outstanding notes or other
21 obligations issued under this subsection together total in
22 excess of \$500,000,000. Redemption of such notes or obliga-
23 tions shall be made by the Corporation from appropriations
24 available under subsection (b) of this section and premium
25 income. Such notes or other obligations shall bear interest at

1 a rate determined by the Secretary of the Treasury, which
2 shall not be less than a rate determined by taking into consid-
3 eration the average market yield on outstanding marketable
4 obligations of the United States of comparable maturities
5 during the month preceding the issuance of the notes or other
6 obligations. The Secretary of the Treasury shall purchase
7 any notes or other obligations issued hereunder, and for that
8 purpose the Secretary of the Treasury is authorized to use as
9 a public debt transaction the proceeds from the sale of any
10 securities issued under the Second Liberty Bond Act and the
11 purposes for which securities may be issued under that Act
12 are extended to include any purchase of such notes or obliga-
13 tions. The Secretary of the Treasury may at any time sell
14 any of the notes or other obligations acquired by the Secre-
15 tary of the Treasury under this subsection. All redemptions,
16 purchases, and sales by the Secretary of the Treasury of such
17 notes or other obligations shall be treated as public debt
18 transactions of the United States.

19 “(e) The Secretary and the Corporation, respectively,
20 are authorized to issue such regulations as may be necessary
21 to carry out the provisions of this title.”.

22

TECHNICAL AMENDMENT

23 SEC. 7. Section 518 of the Federal Crop Insurance Act
24 is amended by inserting “sorghum, livestock, or poultry com-

1 mercially produced for food or fiber," immediately following
2 "tame hay,".

3 COST OF PRODUCTION

4 SEC. 8. The Federal Crop Insurance Act is amended by
5 adding at the end thereof a new section as follows:

6 "COST OF PRODUCTION

7 "SEC. 521. To facilitate the setting of levels of insur-
8 ance coverage and premium rates with respect to insurance
9 offered on agricultural commodities under this title, the
10 Board shall determine for each year national and regional
11 cost of production figures for each commodity for which in-
12 surance under this title is offered. The determinations shall
13 be based on the Board's estimates of the costs incurred in the
14 production of the commodities, taking into consideration joint
15 products, such as the value of cottonseed and the value of
16 grazing in the case of wheat, and regional variations in pro-
17 duction methods and requirements, and shall include, but not
18 be limited to—

19 "(a) a charge for all direct or variable costs, such
20 as labor, power and machinery, seed, fertilizer and
21 chemicals, custom services, irrigation, interest on oper-
22 ating capital, and other materials;

23 "(b) a charge for overhead costs (a proportionate
24 share, if applicable), such as personal property taxes,
25 electricity, sales taxes, insurance, farm auto costs, and

1 other such costs not directly related to the production
2 of a specific crop;

3 “(c) a charge for management; and

4 “(d) a charge for land based on a composite land
5 allocation using share rent, cash rent, and average ac-
6 quisition value.

7 The Board shall, to the extent such information is available
8 with respect to an agricultural commodity, utilize the cost of
9 production determinations made by the Secretary of Agricul-
10 ture pursuant to the requirements of the Agricultural Act of
11 1970 (as adjusted for inflation), as the base figures for its
12 determinations under this section.”

13 DISASTER PAYMENTS

14 SEC. 9. Notwithstanding any other provision of law, no
15 person shall be eligible to receive disaster payments for pro-
16 duction losses with respect to an agricultural commodity
17 under any program of the Department of Agriculture other
18 than indemnification payments made pursuant to the Federal
19 crop insurance program under the Federal Crop Insurance
20 Act, as amended herein, in any county in the United States
21 in which crop insurance under such Act is offered for such
22 agricultural commodity.

23 FARMER INFORMATION PROGRAM

24 SEC. 10. (a) In order to assure that all farmers are made
25 aware of the availability of crop insurance under the Federal

1 Crop Insurance Act, as herein amended, and are provided
2 detailed information with respect to the provisions of the crop
3 insurance program under such Act, the Federal Crop Insur-
4 ance Corporation shall, in cooperation with the Agricultural
5 Stabilization and Conservation Service of the Department of
6 Agriculture, undertake an information program for farmers
7 concerning the Federal crop insurance program, which shall
8 include, but not be limited to—

9 (1) notification by letter, to the extent practicable,
10 to all farmers of the availability of such insurance,

11 (2) broadcast, through direct contact and use of
12 all available media, of information on the program,

13 (3) counseling services on the county level, and

14 (4) making available, at the county level, bro-
15 chures and pamphlets describing the program in detail.

16 This information program shall not include sales promotion
17 activity in any form and shall be completed within two years
18 after the date of enactment of this Act.

19 (b) There are hereby authorized to be appropriated in
20 the fiscal years beginning on October 1, 1980, and October
21 1, 1981, such sums, but not less than \$5,000,000 annually,
22 as Congress may determine necessary to implement the
23 farmer information program provided for in this section.

1 STUDIES

2 SEC. 11. The Federal Crop Insurance Corporation shall
3 perform studies assessing the feasibility of—

4 (a) insuring under the Federal Crop Insurance
5 Act, as amended, the risk of production loss due to
6 prevention of planting caused by natural disaster other
7 than flooding; and

8 (b) individual risk underwriting under the Federal
9 crop insurance program.

10 The Corporation shall complete these studies and submit a
11 report setting forth the findings of the study and recommen-
12 dations for the implementation of these findings to the Com-
13 mittee on Agriculture, Nutrition, and Forestry of the Senate
14 and the Committee on Agriculture of the House of Repre-
15 sentatives not later than two years after the date of enact-
16 ment of this Act.

17 EVALUATION OF FEDERAL CROP INSURANCE PROGRAM

18 SEC. 12. The Secretary of Agriculture shall initiate not
19 later than October 1, 1983, a complete evaluation of the
20 Federal crop insurance program under the Federal Crop In-
21 surance Act. This evaluation shall include an assessment of
22 alternatives to Federal crop insurance, including (1) assump-
23 tion by private insurers of the crop insurance program, (2)
24 Federal reinsurance of private crop insurers, and (3) direct
25 payments for disaster loss in lieu of indemnification through

1 insurance. The Secretary shall submit a report setting forth
2 the findings of the evaluation and recommendations for the
3 implementation of these findings to the President and Con-
4 gress not later than September 30, 1984.

96TH CONGRESS
1ST SESSION

S. 713

To provide a voluntary self-help program designed to assist producers of agricultural products to protect themselves against loss of production when natural or uncontrollable conditions adversely affect production and to assure consumers that producers will be able to continue to produce food and fiber.

IN THE SENATE OF THE UNITED STATES

MARCH 21 (legislative day, FEBRUARY 22), 1979

Mr. TALMADGE (by request) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To provide a voluntary self-help program designed to assist producers of agricultural products to protect themselves against loss of production when natural or uncontrollable conditions adversely affect production and to assure consumers that producers will be able to continue to produce food and fiber.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "Farm Production Protec-
- 4 tion Act of 1979".

1 natural causes, or both, as determined by the Corpora-
2 tion. Production protection offered against loss may
3 cover up to 90 percent of the cost of production of the
4 product for a representative period subject to such ad-
5 justments as the Corporation may prescribe, to the end
6 that the average cost fixed for farms in the same area,
7 which are subject to the same conditions, is equitable
8 between producers. In addition, the Corporation may
9 offer, where deemed practicable, lower levels of protec-
10 tion to be selected at the option of each producer. Pro-
11 duction protection provided under this subsection shall
12 not cover losses due to the neglect or malfeasance of
13 the producer, or the failure of the producer to follow
14 established good farming practices and appropriate con-
15 servation practices. In determining the products on
16 which such protection is to be offered, the Corporation
17 shall take into consideration the demands of farmers
18 for such production protection and the extent to which
19 such production protection is available to commercial
20 producers. The Corporation may refuse production pro-
21 tection in any county or area or on any farm not suited
22 to the production of such product. Production protec-
23 tion may be offered to producer-owned and producer-
24 controlled cooperative associations on agricultural
25 products if the managerial control over the product

1 protected is exercised by such association. The Corpo-
2 ration shall report annually to Congress the results of
3 its operations as to each product protected.

4 (b) To determine the true risk premium that
5 would be chargeable to each participant in this pro-
6 gram based on a sound actuarial base.

7 (c) To determine the share of the true risk premi-
8 um that shall be borne by the Corporation.

9 (d) To adjust and pay claims for losses under this
10 Act, under rules prescribed by the Corporation. In the
11 event that any claim for indemnity under the provisions
12 of this Act is denied by the Corporation, an action on
13 such claim may be brought against the Corporation
14 under the provisions of section 4(c) of the Commodity
15 Credit Corporation Charter Act: *Provided*, That no
16 suit on such claim shall be allowed under this section
17 unless it shall have been brought within one year after
18 the date when notice of denial of the claim is mailed to
19 and received by the claimant.

20 (e) To issue contracts and regulations under this
21 Act, the terms and provisions of which are binding on
22 the contractual parties thereto.

23 (f) To compromise claims brought by and against
24 the Corporation under this Act.

1 (g) To collect and receive insurance premiums and
2 expend such premiums for payments of indemnities and
3 for such other purposes consistent with this Act as
4 determined by the Corporation.

5 (h) To conduct research, surveys, and investiga-
6 tions relating to farm production and to assemble data
7 for the purpose of establishing actuarial bases for farm
8 production protection.

9 (i) Under such terms and conditions as the Corpo-
10 ration deems consistent with sound reinsurance princi-
11 ples, to provide reinsurance on any products or planta-
12 tion insurance provided in the Commonwealth of
13 Puerto Rico, Guam, American Samoa, the Virgin Is-
14 lands of the United States, and the Commonwealth of
15 the Northern Marianas by a duly authorized agency of
16 such Commonwealth or territory: *Provided*, That no
17 application for reinsurance authorized herein shall be
18 approved unless the Corporation shall have determined
19 that the reinsurance deemed necessary is not available
20 from recognized private sources at reasonable cost.

21 (j) To offer specific risk protection programs such
22 as, but not limited to, prevented planting, wildlife dep-
23 redation, and disease and insect infestation programs,
24 under such terms and conditions as the Corporation
25 may determine.

1 INDEMNITIES EXEMPT FROM LEVY

2 SEC. 4. Claims for indemnities under this Act shall not
3 be liable to attachment, levy, garnishment, or any other legal
4 process before payment to the insured or to deduction on
5 account of the indebtedness of the protected person or such
6 person's estate to the United States except claims of the
7 United States or the Corporation arising under this Act.

8 VOIDING OF CONTRACTS

9 SEC. 5. The Corporation may void the farm production
10 protection provided any producer without affecting the pro-
11 ducer's liability for premiums or waiving any right of the
12 Corporation to collect any unpaid premiums if at any time,
13 either before or after any loss, the insured has concealed or
14 misrepresented any material fact or committed any fraud re-
15 lating to the contract, and such voidance shall be effective as
16 of the beginning of the production year with respect to the
17 product on which any such act or omission occurred.

18 ADVISORY COMMITTEE

19 SEC. 6. The Secretary of Agriculture (hereinafter re-
20 ferred to as the "Secretary") is authorized pursuant to the
21 Federal Advisory Committee Act to appoint an advisory
22 committee consisting of members experienced in agricultural
23 pursuits or insurance in keeping with the development of pro-
24 tection programs. The compensation of the members of such
25 committee shall be determined by the Secretary but shall not

1 exceed the daily equivalent of the rate prescribed for grade
2 GS-18 in section 5332 of title 5, United States Code, while
3 actually employed and actual necessary traveling and subsist-
4 ence expenses, or a per diem allowance in lieu of subsistence
5 expenses, as authorized by section 5703 of title 5, United
6 States Code, for persons in Government service employed
7 intermittently.

8

APPROPRIATIONS

9 SEC. 7. There are hereby authorized to be appropriated
10 such sums as may be necessary to reimburse the Corporation
11 for its net realized loss incurred under this Act for each fiscal
12 year, as reflected in its accounts and shown in its financial
13 report of its financial position as of the close of the fiscal
14 year.

15

SEPARABILITY

16 SEC. 8. The sections of this Act and the subdivisions of
17 such sections are hereby declared to be separable, and in the
18 event any one or more sections or parts of this Act are held
19 to be unconstitutional, the same shall not affect the validity
20 of other sections or parts of sections of this Act.

21

DEFINITIONS

22 SEC. 9. (a) "Agricultural products" or "products", as
23 used in this Act, shall include, but not be limited to, wheat,
24 cotton, flax, corn, dry beans, oats, barley, rye, tobacco, rice,
25 peanuts, soybeans, sugar beets, sugarcane, timber and for-

1 ests, potatoes and other vegetables, citrus and other fruits,
2 tame hay, livestock and poultry commercially produced for
3 food or fiber, or any other agricultural product determined by
4 the Corporation pursuant to subsection (a) of section 3 of this
5 Act, or any one or more of such products, as the context may
6 indicate.

7 (b) "Cost of production" means variable, machinery
8 ownership, and general farm overhead costs plus a charge for
9 management and a charge for land as determined by the Cor-
10 poration for a given area or county.

11 (c) "General farm overhead" shall include costs for rec-
12 ordkeeping, utilities, general farm maintenance, personal
13 property taxes, sales taxes, insurance, and similar items not
14 specifically associated with a specific crop enterprise. Over-
15 head costs are to be allocated to specific crops on the basis of
16 the proportion of the value of total production derived from
17 each crop.

18 (d) "Land charges" are to be calculated at a percentage
19 (determined by the Corporation) of the current average pur-
20 chase price or average rental cost of land for agricultural
21 purposes.

22 (e) "Machinery ownership" costs shall include charges
23 for replacement, interest, insurance, and taxes.

1 (f) "Management charges" are to be allocated to agri-
2 cultural products on the basis of the proportion of the value
3 of total production derived from each product.

4 (g) "Production protection" means protection of produc-
5 ers against loss of the cost of production of agricultural
6 products.

7 (h) "True risk" means the anticipated amount of loss for
8 a given protection plan.

9 (i) "Protection plan" means the protection option select-
10 ed by the insured.

11 INDEMNITIES EXEMPT FROM INTEREST

12 SEC. 10. Notwithstanding any other provision of this
13 Act, the Corporation shall not be liable or obligated to pay
14 interest on payments or claims for indemnity authorized
15 under this Act.

16 FINALITY PROVISION

17 SEC. 11. The facts constituting the basis for any pay-
18 ment under this Act, or the amount thereof, when officially
19 determined in conformity with the applicable regulations pre-
20 scribed by the Secretary or by the Corporation, shall be final
21 and conclusive and shall not be reviewable by any other offi-
22 cer or agency of the Government. In case any person who is
23 entitled to any such payment dies, becomes incompetent, or
24 disappears before receiving such payment, or is succeeded by
25 another who renders or completes the required performance,

1 the payment shall, without regard to any other provision of
2 law, be made as the Corporation may determine to be fair
3 and reasonable in all the circumstances, as provided by
4 regulations.

5 APPLICATION TO OTHER GOVERNMENTAL PROGRAMS

6 SEC. 12. (a) Notwithstanding any other provision of
7 law, the farm disaster payment provisions and the prevented
8 planting disaster payment provisions for wheat, feed grains,
9 cotton, and rice of the Agricultural Act of 1949, as amended,
10 shall be effective with respect to the 1980 crops of wheat,
11 feed grains, cotton, and rice.

12 (b) Notwithstanding any other provision of law, no
13 person shall be eligible to receive farm disaster payments,
14 prevented planting disaster payments, subsidized interest
15 charges on emergency loans and payments, indemnity pay-
16 ments, or specific risk protection payments for production
17 losses under any other Federal program for any agricultural
18 product in any county of any State when, under provisions of
19 this Act, product production protection is generally offered
20 for such agricultural product in such county.

21 PERSONS UNDER EIGHTEEN YEARS OF AGE

22 SEC. 13. Notwithstanding any other provision of law,
23 no person shall be denied protection under this Act solely on
24 the ground that he or she is under eighteen years of age if
25 such person (1) has a bona fide interest in a crop as an

1 owner-operator, landlord, tenant, or sharecropper, and (2)
2 has a comaker for the contract of insurance executed: *Pro-*
3 *vided*, That any such person who enters into a farm produc-
4 tion protection contract shall be subject to the same legal
5 liability and have the same legal rights with respect to such
6 contract as any person over the age of eighteen years.

7 TRANSFERS OF ASSETS OF THE FEDERAL CROP

8 INSURANCE CORPORATION

9 SEC. 14. The assets, funds, appropriations, property,
10 records, and policyholders of the Federal Crop Insurance
11 Corporation shall be transferred to the Commodity Credit
12 Corporation at such times as the Secretary shall direct. The
13 rights, regulations, privileges, and powers, and the duties and
14 liabilities of the Federal Crop Insurance Corporation, in re-
15 spect to any contract, agreement, loan, account, or other ob-
16 ligation, shall become the rights, regulations, privileges, and
17 powers, and the duties and liabilities, respectively, of the
18 Commodity Credit Corporation. The provisions of the Feder-
19 al Crop Insurance Act that are relevant to current regula-
20 tions of the Secretary and the Federal Crop Insurance Cor-
21 poration governing the program operation of the Federal
22 Crop Insurance Corporation shall remain in effect until such
23 regulations are revoked, superseded, amended, or modified by
24 regulations issued under this Act. The enforceable claims of
25 or against the Federal Crop Insurance Corporation shall

1 become the claims of or against, and may be enforced by or
2 against, the Commodity Credit Corporation: *Provided*, That
3 nothing in this Act shall limit or extend any period of limita-
4 tion otherwise applicable to such claims against the Com-
5 modity Credit Corporation.

6 OPERATING FUNCTION

7 SEC. 15. The administration of the various functions re-
8 lated to this Act may be assigned by the Secretary to such
9 agencies of the United States Department of Agriculture as
10 he may designate or otherwise in accordance with the Com-
11 modity Credit Corporation Charter Act. Such assignments of
12 function shall be made in such manner as the Secretary de-
13 termines will effectively and efficiently carry out the purposes
14 of this Act and maintain fiscal responsibility and program
15 integrity, provided that loss adjustment, actuarial services,
16 and marketing and servicing are established as separate func-
17 tions.

18 DISSOLUTION OF THE FEDERAL CROP INSURANCE

19 CORPORATION

20 SEC. 16. The Secretary, representing the United States
21 as the sole owner of the capital stock of the Federal Crop
22 Insurance Corporation, shall institute or cause to be institut-
23 ed such proceedings as are required for the dissolution of
24 such Corporation under United States law at such time as

1 the Secretary deems it appropriate. The cost of such dissolu-
2 tion shall be borne by the Commodity Credit Corporation.

3 REPEAL OF THE FEDERAL CROP INSURANCE ACT

4 SEC. 17. Except as provided in section 14 of this Act,
5 title V of the Agricultural Adjustment Act of 1938 (known as
6 the Federal Crop Insurance Act) is repealed, effective De-
7 cember 31, 1982.

8 AMENDMENTS TO THE COMMODITY CREDIT CORPORATION
9 CHARTER ACT

10 SEC. 18. (a) Section 9(a) of the Commodity Credit Cor-
11 poration Charter Act is amended by striking out "seven" and
12 inserting in lieu thereof "eight".

13 (b) Section 10 of the Commodity Credit Corporation
14 Charter Act is amended by inserting in the second sentence
15 after the word "experts," the following: "personnel paid by
16 the hour, day, or month when actually employed, county rep-
17 resentatives, and private insurance agents and companies,".

Senator HUDDLESTON. The witnesses this morning should feel free to discuss any of these proposals and give us their thoughts on any other plans they feel may have merit.

Our first witness this morning will be Charles Bragg, producer representative, National Cotton Council of Memphis, Tenn.

Mr. Bragg.

STATEMENT OF CHARLES BRAGG, STAFF DIRECTOR, PRODUCER STEERING COMMITTEE, NATIONAL COTTON COUNCIL

Mr. BRAGG. Thank you, Mr. Chairman.

Mr. Chairman, my name is Charles Bragg. I am the staff director for the producer steering committee of the National Cotton Council. Mr. Herman Popst, of Anson, Tex., had originally intended to give this testimony, but he was not able to be here.

Senator HUDDLESTON. We are glad to have you substitute.

Mr. BRAGG. The council, in whose behalf I am testifying, represents all segments of the raw cotton industry from grower to manufacturer and from coast to coast. The producer steering committee of the council is composed of grower representatives selected by cotton producer organizations in each of the 14 major cotton-producing States. We believe it provides a true cross section of the producer viewpoint across the Cotton Belt.

The committee is the producers' advocate within the council. It has the responsibility of developing recommendations on price and production policy for consideration by the council's program committees and, in turn, the delegate body.

In January, at the council's annual meeting in San Diego, Calif., producers and other delegates gave very serious attention to proposals for expanding and improving protection for farmers against abnormal weather and other conditions beyond their control. The position finally agreed to was spelled out in a resolution reading as follows:

The Council recommends a widely affordable all-risk Federal crop insurance program for cotton, wheat, feed grains, and rice, which should:

- (1) Be funded by the Commodity Credit Corporation;
- (2) Be based on individual farm yields and area production costs;
- (3) Be sold and serviced by both ASCS offices and private agents; and
- (4) Support the continuation of the federally funded disaster program until such time as an economically feasible, affordable, and workable crop insurance program can be enacted.

The council advocates that Federal reinsurance be offered to private insurance companies at a cost and in a manner which will permit them to sell the same coverage at the same cost as Federal crop insurance.

The Council supports extension of reasonable crop insurance protection to crops lost as a result of strikes, embargoes, or boycotts against producers where good faith efforts have been made to salvage such crops.

We have had very limited opportunity to review the proposal which the administration will offer this year. We did testify on their proposal last year.

We feel very strongly that the law should require USDA to base its crop insurance on individual farm yields obtained from any reliable source. In our opinion, the FCIC program of past years failed primarily because yields were insured on a county or areawide basis, which resulted in adverse selection. We understand that USDA presently intends to move in the direction of individual farm yields.

Our producers are concerned about costs per acre, limits on coverage, the levels of CCC cost sharing, and what, if any, restrictions may be placed on farming practices or land use in order to qualify for coverage. We wonder what "representative period" of time will be used to determine farm yields, loss ratios, and costs of production, whether that is 5 years, 10 years, or 20 years?

We realize, of course, that an undertaking of this magnitude is most complicated. Few farmers are experts in the field of insurance. There is a need for flexibility in the law. But experience is a good teacher, and the history of past programs has made many of our producers somewhat skeptical of benevolent government. Administrations and Secretaries of Agriculture are subject to change, as are regulations of farm programs. Therefore, we recommend that specific program details be included in any bill which is adopted along the lines we have suggested.

We believe reinsurance should be offered to any qualifying public or private organization in the 50 States. And it should be done in such a way that private insurance companies can sell the same insurance program as USDA at the same cost to farmers. Insurance has to be sold if the volume is to be achieved that will provide an affordable, low-cost program. The profit incentive of the private sector is needed to achieve that volume, not only in the form of sales commissions as provided in most of the bills, but also in making it possible for private companies to offer comparable policies of their own.

As USDA explained the program it offered last year, there would be a single reimbursement rate or set of rates offered to all producers of a particular crop. Because of wide differences in the quality of the cotton crops of different regions and in their costs of production, we feel that reimbursement rates should be established regionally. If this is not done, the insurance could provide a windfall in some areas and be virtually unsalable in others because of lack of adequate protection.

Production costs also differ very substantially. USDA periodically surveys production costs and publishes them individually for 15 regions. This information, along with price differences, could be used to tailor reimbursement rates to fit different growing areas more effectively and fairly.

Mr. Chairman, we commend you, your committee, and USDA for efforts to put in place the adequate protection farmers need for the uncontrollable risks they face. We believe you are moving in the right direction. And with our suggestions, we feel you will meet this need in a way that is good for the farmers, our Government, and our Nation as a whole.

We appreciate the opportunity to testify and I will be glad to answer any questions that you may have.

Senator HUDDLESTON. Thank you very much, Mr. Bragg.

I notice the National Cotton Council resolution states that the council supports continuation of the disaster payment program until such time as an economically feasible, affordable, and workable crop insurance program can be enacted. Specifically, does this recommendation support continuation of disaster payments through 1981 and beyond 1981?

Mr. BRAGG. Yes, we do support an extension of the program. We have been told, and we understand the Federal Crop Insurance Corpo-

ration agrees, that it will take 2 or 3 years to get this program into operation. We think that there are farmers who cannot do without some disaster protection in the interim. We would like to see it continued.

Senator HUDDLESTON. If an adequate crop insurance program is enacted, do you think there would need to be a phase-in period during which we would continue the disaster program?

Mr. BRAGG. Yes, I think so.

Senator HUDDLESTON. If the current Federal crop insurance program is simply continued, except for the assumption of some of the premium costs by the Government, expansion into all agricultural counties, and increased use of reinsurance in the program, would the cotton farmers support this approach?

Mr. BRAGG. Yes, I think so. Most of our farmers believe that would actually be a fairly sensible way to handle the program, expand the FCIC, go into uncovered counties, have reinsurance and I think it would work.

Senator HUDDLESTON. You mentioned benefits and the costs should be determined on the basis of reliable production estimates, localized to the individual farmer. What would be a reliable source?

Mr. BRAGG. In cotton—I am most familiar with cotton, of course—we have proven records on each farm already available for the past several years. The records are kept by ASCS county offices. We think that would be the place. I understand that not all commodities have those records available. We have encouraged USDA to take steps to encourage proven production records for the past several years and they have them on some commodities, but not nearly all of the commodities that FCIC plans to cover.

Senator HUDDLESTON. If the other commodities had the same program as cotton, it would be easy to do.

Mr. BRAGG. It would be easy to do, yes, sir.

Senator HUDDLESTON. Thank you very much for your testimony.

Mr. Arthur A. White?

STATEMENT OF ARTHUR A. WHITE, BYRON, GA.

Mr. WHITE. Mr. Chairman and distinguished members of this committee. I am Arthur A. White, Jr. I am a farmer in Houston County, Ga., and live near the town of Perry.

In May 1978, this committee held hearings for the administration officials on a comprehensive crop insurance program, and I was hopeful that a strong crop insurance program would emerge that would benefit farmers.

Since that time, I can report to you that I come here today more than \$200,000 poorer as a result of two successive years of severe drought. I need your help and I am not too proud to ask for it.

I remember during the drought in 1977 when then Deputy Secretary of Agriculture John White, Senators Herman Talmadge and Sam Nunn, the Governor and Agricultural Commissioner of Georgia, and the president of the Georgia Farm Bureau were all in my county examining the effects of the drought. It was during that visit, I was assured by Secretary White and Senator Talmadge that they would work toward a stronger and more workable Federal crop insurance

program instead of the ASCS disaster payment plan which does not pay enough benefits to farmers when they need it.

I don't want to belabor you with my individual problems, but to put into perspective what I am talking about, you must know that in 1977 drought destroyed three-fourths of my crop and last year, in 1978, it took one-half of my crop. In the past 2 years combined, I have only been able to produce three-quarters of a normal crop.

But that is only part of the story. This year may be even worse. I was forced in 1977 to borrow a considerable amount of money to keep going from the Small Business Administration. That money has to be paid back for the next 9 years at the rate of \$26,000 per year, which includes \$9,000 or \$10,000 in interest payments. I might add here I have just made the first payment. I must produce \$26,000 a year more in the next 9 years just to get back to the same income level I was achieving before the drought struck. My chance of being able to do this makes farming an even bigger gamble than before. I have a real dilemma because the set-aside provisions for 1979 will require that I idle 60 acres of wheat, 40 acres of barley, and 50 acres of corn. This means I cannot plant 150 acres of my land. I don't believe I can afford to do this. I've got to raise a crop this year and get a good price for it or I am simply lost. I can't leave that 150 acres out of production.

A lot of farmers have been upset with prices, but that is not what has hurt farmers in the Southeast. The biggest problem has been we have been unable to produce crops because of weather conditions.

I fully recognize that the administration bill before this committee contains a number of features that were in S. 1575 in the last session, which I strongly supported and still feel was an excellent bill; however, there are some significant and disturbing differences in this new bill.

One of the most disturbing to me is the elimination of the separate corporate structure for the insurance program. It is my understanding that the present Federal Crop Insurance Corporation would be dissolved and that the existing Commodity Credit Corporation, which handles USDA compliance programs, would be utilized as the parent organization to direct the activities of an insurance unit. This is not what was promised us in Houston County when all the officials were there during our drought.

The Commodity Credit Corporation's board of directors is composed of the seven Assistant Secretaries of Agriculture and would be expanded by one member to accommodate the insurance manager. This would leave the insurance program outvoted 7 to 1 on critical issues and could lead to program abuse on a scale never before known even if it were done with honorable purpose.

The Commodity Credit Corporation, in my judgment, has no business being involved with the insurance operation. It has its hands full now with foreign sales programs and domestic compliance programs. Why saddle commodity credit with an insurance program for which they have no time, no expertise, and no experience to operate?

I think everyone in this room knows what the outcome will be if CCC is permitted to handle the insurance program. It simply will be turned over to the ASCS organization to run similar to other CCC programs. There already have been a number of attempts by ASCS to confirm this authority. You can walk into any ASCS office in the country and

ask about it and they will tell you it is just a matter of time before they take over FCIC and run the insurance program.

I personally feel that ASCS is necessary and is doing a reasonable job with the programs they presently are administering, but I draw the line when it comes to the insurance program because it is so different that I cannot conceive of it being a success under the ASCS style of management giveaway programs.

Another example can be cited with the Federal Crop Insurance pilot county project a year ago in my county which was handled primarily by ASCS. With increased insurance guarantees on more crops, more farmers were signed up in the insurance plan. Some of this was because of the severe drought in 1977, but still there could have been a lot more farmers participating in this program. My ASCS people did not fully understand the program and they did not push the insurance like it should have been pushed. The result was that a lot of farmers were caught short again without protection. If the insurance program is going to be successful, it must be aggressively sold because farmers must be convinced to buy it. Our ASCS people are too busy to properly handle this job and, in my opinion, really don't want to be at the local level.

My dad was in the ASCS office recently and the office people approached him about signing up for Federal Crop Insurance. However, they told him all the bad points about the program and none of the good points. Then they tried to force him to take it on a crop he didn't want to insure. What kind of salesmanship is that?

I was in Washington when the American Agricultural Movement farmers were demonstrating on the mall and I stopped and visited with some of them and had breakfast at my motel with another. I was amazed at what they told me was the reason they wanted to keep the ASCS program—it was because they felt they could collect on it every year.

One farmer, a nice gentleman about 60 years old, said he farmed 3,000 acres of wheat land. He summer fallowed half of the acreage each year and used that for his set-aside compliance. If he had a loss on the rest he could collect. Another—a cotton farmer from Texas—said he would support the Federal crop insurance program if the coverages were high enough to do him some good. He said he planted 700 acres of dryland cotton last year when he knew it wouldn't germinate and come up because it was too dry. He did it, he said, just to collect his disaster payment. He told me some of his neighbors planted cotton seed hulls, instead of seed, and never did intend to produce a crop. They did it so they could collect an ASCS.

That was 3 weeks ago, right here in Washington.

When farmers are saying this, it is most difficult for me to accept that even a fine organization like ASCS, which is experienced in administering many Government compliance programs, can make a complete about-face and provide the type of administration and salesmanship that will be necessary for a successful self-help insurance program, especially since it should be operating on a voluntary rather than mandatory basis.

On the other hand, I like the idea of being able to go to one location to do my agriculture business with the Government. Why not place an experienced FCIC insurance person in the ASCS office to only sell and service the farmer?

I have been involved in the insurance program as a policyholder since the program was available in my county and I recognize that insurance programs, if they are to remain affordable, must be run conservatively. Any excess or liberal payments would, in my opinion, have the direct effect of increasing farmer premiums and sufficiently undermining the actuarial integrity of the program so as to eventually lead to its death.

If we are going to pool all of our emergency farm disaster programs into one central insurance program, you must demand that adequate steps be taken now to prevent the types of program abuse that have prevailed in the administration of other national programs by the Government.

I cannot help but feel that the administration, in eliminating the Federal Crop Insurance Corporation, is simply attempting to eliminate one Government agency for the sake of a streamlined Government. But this is too important to the farmers of this country to treat in this manner. Eliminating one agency is not the answer to the problem of crop loss or disaster.

Of all the bills introduced into the Senate and the House last year regarding the crop insurance program, all but one of two were designed to expand the program and that, I feel, is the key. Also, there is considerable demand for an expanded insurance program. FCIC testified last year it has requests from more than 400 counties for insurance coverage which it cannot meet due to budget restrictions. My three neighboring counties in Georgia are in this situation.

I would remind the committee that it has a completely experienced organization in the Federal Crop Insurance Corporation which could be expanded and modified with amendments to its existing legislation to fill the void in protecting against failure to produce, which the administration admits is a weakness in the present Farm Act. Furthermore, this action could be taken now and be in effect almost immediately.

Everything that is proposed under the administration bill and most other bills introduced could be achieved by this simple expedient move.

I would also recommend that a minimum level of Federal participation in the premium be established in order to provide the type of program stability needed and to assure continued growth and acceptance by farmers, including increased participation. I suggest not less than one-third be paid by the Government.

Other recommended changes in the present FCIC act should include an increase in capital stock to whatever level is necessary to adequately support the expanded program, elimination of restrictions on expansion and the ceiling of \$12 million on appropriations each year, and an expansion of the board of directors to include more farmer participation.

We need four or five farmers, in addition to the USDA and insurance people, on the board from different parts of the country to provide input on programs and different farming methods. Sometimes what works in Georgia won't work in Illinois, Oklahoma, or California, and that needs to be considered at the top level.

Since I was here 3 weeks ago and presented my testimony to the House subcommittee I have received a letter from Mr. John Ames,

who is an executive secretary of the National Crop Insurance Association, which I understand represents the private crop insurance industry.

This letter opposes the expansion of the Federal Crop Insurance Corporation and the legislation before this committee.

Mr. Chairman, I personally have used crop hail insurance on my farm for years, and I just got through paying a \$1,800 premium. My point is that I use both types of insurance because I need all of the protection I can get. But the private insurance will not help me when I have a loss due to drought, which has been my problem the last 2 years. We need both types of insurance, the all-risk Federal crop insurance to protect my production expenses, and the private crop-hail to help me maintain a profit in the event of a hail. These two types of insurance are not competitive; they each have a job to do.

I want to thank you, Mr. Chairman, for permitting me this time on your busy schedule. I will be happy to discuss any of my recommendations with your committee or to try to answer any questions you may have.

Senator HUDDLESTON. Thank you very much, Mr. White. We appreciate your testimony.

Based on your experience, if the ASCS is not used to participate in the selling of the insurance on the local level, what would you see as the best way to sell the insurance?

Mr. WHITE. I think I mentioned this, Mr. Chairman, that we could put some of the FCIC personnel in these offices to sell it and service it.

Senator HUDDLESTON. In the ASCS office?

Mr. WHITE. That is what we are currently doing in Houston County on the pilot program.

Senator HUDDLESTON. You said you also need to permit private insurance salesmen to contact the farmers to sell the insurance.

Mr. WHITE. You mean the Federal crop insurance?

Senator HUDDLESTON. Right.

Mr. WHITE. Yes, sir, that would be all right.

Senator HUDDLESTON. Do you think it would take an aggressive selling program in order to make sure there is enough participation to make the program viable?

Mr. WHITE. Yes, sir, Mr. Chairman, it is going to take aggressive selling. I might add, if I may, that we had in 1977 about eight contracts on wheat, we had about six on peanuts—this is just from memory—one on peaches and about eight on soybeans and after we got a pilot program in Houston in 1978 and we got a person in there, the Federal crop people got a person in there to sell the insurance and these contracts have jumped—they have more than doubled.

Like I say I don't know whether this is from the drought that we had the last 2 years. I don't really know. But what is amazing to me is the top farmers and the better farmers in Houston County are the ones using this crop insurance.

Senator HUDDLESTON. Do you believe that with a good Federal crop insurance program there will still be a need for private insurance?

Mr. WHITE. Definitely. Like I say, most everybody growing grain, peanuts, and corn, they take out crop payments anyway, but it only covers half, not fire or something like that.

Senator HUDDLESTON. In the drought of 1977 did you receive disaster payments?

Mr. WHITE. Yes, sir.

Senator HUDDLESTON. But they did not cover your cost of operation.

Mr. WHITE. No, sir, by a third.

Senator HUDDLESTON. And you couldn't buy additional insurance that would cover drought?

Mr. WHITE. No, sir, no way. In fact, the Federal crop insurance last year, if it hadn't been for that, I couldn't have paid SBA that payment back. We had a total loss on corn and partial loss on peanuts and soybeans, and had it not been for that I couldn't have paid SBA.

Senator HUDDLESTON. Do you feel that with adequate funding for the present FCIC program and correction of some of the limitations, the program essentially would do the job being attempted by the administration's new Federal crop insurance bill?

Mr. WHITE. Definitely.

Senator HUDDLESTON. Senator Pryor, do you have any questions of Mr. White?

Senator PRYOR. Mr. White, I am David Pryor from Arkansas and I am new on the committee and I am trying to learn a little about this legislation. I was not here when some of the legislation you make reference to was introduced.

Your main concern, if I understand it correctly, is trying to transfer the Federal crop insurance program into the Commodity Credit Corporation?

Mr. WHITE. Yes, sir, that is one of my main concerns.

Senator PRYOR. You are opposed to that?

Mr. WHITE. Yes, sir.

Senator PRYOR. You speak today from personal experience which I know the committee appreciates. I agree with you that it is absolutely necessary to have farmers from various parts of the country to make up this board. We have to bring to whatever program that we have a wide background of experience and geographical representation.

Mr. WHITE. If I could give you an example on that, if it is all right, when we first got the Federal crop insurance in Georgia, you have planting dates that you have to meet and we were the first county in Georgia to get Federal crop insurance. They gave us planting dates that were used in Indiana, Illinois, and Iowa and we just took about 2 years to get those worked out to show them that our planting dates are entirely different from planting dates up there.

Senator PRYOR. I have no other questions.

Senator HUDDLESTON. In Georgia, do you have production records localized to the extent that they would give the necessary information?

Mr. WHITE. Mr. Chairman, we have actual production records on peanuts and tobacco. Now this is something that I have been trying to get done for the last 10 years, to get active production records in the ASCS office on soybeans, wheat, and corn and stuff like that. We don't have the actual records on those commodities.

Senator HUDDLESTON. You think that would be important?

Mr. WHITE. Yes, sir, it is important.

Senator HUDDLESTON. Would it be important in future programs?

Mr. WHITE. Yes, sir.

Senator HUDDLESTON. You mentioned a case where poor quality seed was planted and was already a foregone conclusion that there would not be adequate production. How would you certify that everything had been done that reasonably could be expected to be done by the farmer to insure at planting time that he would have an adequate crop?

Mr. WHITE. Mr. Chairman, I can tell you that some of them are not going to do that, that some of them will find a way, but the Federal crop insurance, they require that land be certified fertile. I have records on that. They go to my fertilized field where they pull soil samples and check my soil.

Senator HUDDLESTON. Is that done at the beginning of the season?

Mr. WHITE. Yes, sir, they check all of that.

Senator HUDDLESTON. Do they check the seed? Do you have to certify the seed?

Mr. WHITE. No, sir, they don't check the seed.

Senator HUDDLESTON. That might be an important consideration.

Mr. WHITE. Well, it is something to think about. Like I say, I am not going to tell you that some of them aren't going to find a way to get by with it, but there are farmers that live in Georgia and they love it, like most of us do, and they are not going to do that, but you will find a few that will.

Senator HUDDLESTON. Most people that go to the trouble of putting in a crop, put it in with the expectation that something is going to grow.

Mr. WHITE. Yes, sir.

Senator HUDDLESTON. Thank you for your testimony.

Mr. Winston Wilson, president, National Association of Wheat Growers.

STATEMENT OF WINSTON WILSON, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, QUANAH, TEX., ACCOMPANIED BY CARL SCHWENSEN

Mr. WILSON. Mr. Chairman and members of the subcommittee, the National Association of Wheat Growers appreciates this opportunity to present its views on Federal crop insurance and disaster programs. I am Winston Wilson, wheat producer from Quanah, Tex., and currently president of the National Association of Wheat Growers. Accompanying me today is Carl Schwensen of our Washington, D.C. office.

Mr. Chairman, the Federal Crop Insurance Corporation was established by law 41 years ago to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. Since 1938 it has provided important protection against losses caused by natural hazards in many wheat producing areas of the Nation. However, it has been unavailable to growers in other important producing regions and the progressive reduction in coverage has made it an unattractive means of insuring against risk for even more growers.

Importantly, Congress enacted legislation in 1973 authorizing prevention from planting and low yield disaster coverage to eligible producers which was administered by the Department of Agriculture's

Agricultural Stabilization and Conservation Service. This authority was modified and extended by the Food and Agriculture Act of 1977. In many cases this program provides the only crop protection available to producers, and this coverage is presently scheduled to expire with the 1979 crop.

The National Association of Wheat Grower believes that it is imperative that an expanded, all-risk program have both attractive premium rates and coverage levels to generate the participation necessary to conduct a successful program. We, likewise, believe that any new program should be broadly tested before it is implemented as the only crop disaster protection program available to producers. The administration's program and other proposals we have seen do not, in our opinion, meet these basic standards.

Accordingly, the National Association of Wheat Growers recommends that the present 1977 Farm Act disaster program be extended through the 1981 crop year. No viable alternative to present programs exists, and the Nation's wheat producers must have protection until an acceptable crop insurance program is established and tested through an expanded pilot program.

Further, the NAWG urges that any future all-risk crop insurance program include the following elements:

One: Administration and marketing of the program through the Federal Crop Insurance Corporation, utilizing ASCS as a delivery system.

Two: The opportunity to use accurate established farm yields in lieu of actuarial data to determine coverage.

Three: Basic coverage based on yield selections of 50, 65, and 80 percent of established yields times the current target price.

Four: A premium subsidy for wheat insurance at no less than 50 percent of the premium cost at the 50-percent coverage level.

Five: Exclusion of administrative expenses from premium costs.

Six: A voluntary program with eligibility independent of ASCS farm program participation.

And, finally, grower ability to segregate by choice his dryland crops and irrigated crops.

In conclusion, I want to add that the legislative proposals we have seen thus far are extremely vague and grant excessive discretionary authority to the Department of Agriculture. We strongly urge that the main features under which any new crop insurance program will operate be clearly stated in authorizing legislation to insure that the program Congress adopts is the same program that is ultimately offered to the Nation's agricultural producers.

At this point I would like to add that that last statement asking for clear-cut congressional definition of what the program involves is certainly no indictment of Mr. Deal or the people in the Federal Crop Insurance Corporation, but we are fairly certain that they do not have the final say-so in what the program looks like because we realize that OMB and other areas of the administration get involved and we want to see the program and how it will work before it is our sole line of defense against disaster.

This concludes our statement on crop insurance and I would be pleased to answer any questions that you might have.

Senator HUDDLESTON. Thank you, Mr. Wilson.

You mentioned the necessity for testing in the program before it is duly implemented. What kind of testing would you suggest and how long?

Mr. WILSON. Well, our feeling is that probably the best testing program, which would really serve two purposes—it would test the program and if the program is good, it would also go a long way in selling the program to the farmers—would be to have at least in some counties crop insurance and disaster programs available at the same time, and if in truth the insurance program is a better deal, well, the farmers are going to be quick to see this and buy the program.

Senator HUDDLESTON. Would this require testing over a period of years?

Mr. WILSON. Probably no more than 2 years at most. Any new program is going to have some bugs in it and they need to be worked out. I know the first year that we had experience with the disaster program, there were some real problems there, but by the second year most of these bugs had been worked out and the program worked fairly effectively.

Senator HUDDLESTON. At any rate, during testing time or during the transition period do you feel the disaster program should continue?

Mr. WILSON. We would like for it to continue because we feel we need some type of backup. As we mentioned earlier, it is possible to insure against hail and fire, but drought, which is one of our big risks in the wheat area, is something we can't currently buy insurance on. We feel like we need some backup.

One of the problems that we have in the wheat production area with immediately changing over to Federal crop insurance is the fact that a very large number of producers have had virtually no experience with Federal crop insurance. I know in approximately 50 wheat producing counties in the State of Texas there are only, I believe, 4 counties which offer crop insurance on wheat and this hasn't proven very satisfactory, and we have virtually no experience in this, and we have some additional problems which I mention in my testimony. We would like to see the yields that are used for insurance purposes be based on established yields, such as ASCS yields, rather than actuarial, because I know one adjoining county to my county in which the county average is 26 bushels and the Federal crop insurance actuarial figures are 9 bushels. If you don't harvest the crop and you only have 50-percent coverage on that, then you would be paid for three bushels for that normal yield.

Senator HUDDLESTON. What accounts for that big difference in the actuarial information?

Mr. WILSON. I never really understood how actuarial yields are assembled. I really can't answer that question. I think it is based on risk more than anything else. I am not sure what time period is used for the basis of this. We have had a fairly substantial increase in crop yields over the past 10 to 15 years and I think this is reflected in the fact that our established yields are much higher than the actuarial.

Senator HUDDLESTON. Mr. Johnson is here. Would you explain to us how you figure that?

Mr. JOHNSON. Yes, sir.

Senator HUDDLESTON. I know the actuarial procedures on human life, but I am not sure how it works on a crop.

Mr. JOHNSON. I am Otto Johnson, Deputy Manager of Federal Crop Insurance.

On different crops we use different methods to establish the actuarial base for the program. Basically, on wheat we gather the county-wide statistics of the county's production for a period of years that is representative of that risk for that area. In certain Texas Panhandle counties, for instance, which have peaks and valleys of production, in definite cycles of 4 to 6 years to be more representative we would probably use a 15-year average. On the other hand, if the production was fairly stable we could use a 10-year average. In theory, Mr. Chairman, if the production was the same each year, year in and year out, we would only need to use 1 year. You must use a number of years to be representative. Then we take that average yield and we calculate coverages according to the limitations of our act. These limitations require that we are not above 75 percent of the long-term average yield and that the cost of a level we offer under the program is not prohibitive under our present law, since the premiums must pay indemnities and build reasonable reserve. Then we set coverages as close to the individual producer yield and risk as possible.

For a crop like wheat, where we have no individual producer records, we use soil maps, soil capability maps, climatological data for certain areas like flood plains and basins, and so forth, to arrive at the different risks of the county for different producers. This may group producers together and a lot of times does not take into consideration the management aspect of the farms, which may be different. This management aspect is recognized and becomes apparent in the risk.

It is not a completely sound actuarial method because we don't have the individual producer records. On crops like peanuts and sugarcane and some of the other crops where we have producer records, we have a sound actuarial basis.

Senator HUDDLESTON. You talk about limitation of the program and objectives of the program and it sounds like you start out with a conclusion and work back toward proving it. Is that right?

Mr. JOHNSON. Right. You start out with what the producers have actually produced for that county and then you have to go back to that as a check yield. If, for instance, the county produced 26 bushels of wheat for a 10-year period and the 10-year average was representative, then it is assumed there are producers that made perhaps as high as 40 bushels, and some that may be made as low as 10. These are then reviewed from that standpoint, using the soil capabilities map and other methods in order to locate where the variations are within the county and assign that risk.

There is one thing we have been able to do in the last 2 years under the pilot program. Utilizing the ASCS and county committee and also someone from the Soil Conservation Service in the county, we have been able to get a closer grasp on the capabilities of each farm, the farm operator, and his capabilities, and where he falls in relation to risk areas.

Senator HUDDLESTON. So, it would be a better system, of course, if you could have individual production records right down to each farm?

Mr. JOHNSON. That is the utopia.

Senator HUDDLESTON. Otherwise you are dealing strictly with averages, and nobody is ever average. It is the individual who is going to be hurt or helped by whatever you do.

The administration envisions participation by 68 percent of all farmers if this proposal is adopted. Do you think that extent of participation would be reached in any county?

Mr. WILSON. I would have to see the program before I could really make a judgment on that. If the program is, in fact, a good program, I think we could see higher participation.

Senator HUDDLESTON. Wouldn't subsidization of premiums improve the participation?

Mr. WILSON. Certainly.

Senator HUDDLESTON. Senator Pryor, do you have any questions for either of these two gentlemen while Mr. Johnson is still here?

Senator PRYOR. I have no questions, Mr. Chairman.

Senator HUDDLESTON. Thank you very much.

Mr. Chester Worthington, Greenville, N.C.

STATEMENT OF CHESTER WORTHINGTON, JR., GREENVILLE, N.C.

Mr. WORTHINGTON. My name is Chester Worthington and I live at route No. 1, Box 355, Greenville, N.C. I am general manager of Worthington Farms, Inc., which is owned by me and my family. We grow tobacco, corn, soybeans, peanuts, timber, hogs, and produce eggs. We have been insuring our tobacco and peanuts with Federal Crop Insurance Corporation for several years. In 1977, we experienced a very bad year, and the money from our crop insurance was a big help. I believe we need a Federal crop insurance program for certain crops, as no other insurance company seems able or willing to provide this all-risk coverage.

I like the way Federal Crop Insurance Corporation is separate from other Federal agencies. I like to feel that my premium is going into a fund set up to pay the losses so that when I have a loss and I collect, I have paid my own way. I do not expect or want the Government to protect me from all evil. To try to protect any farmer or every farmer from any loss could be counterproductive. Risk is what makes me get out in bad weather and look after our farm.

Please don't try to make us wards of the State. Let me be free from Government handouts as much as possible. If it is there for my competition and me, I have to take it to stay in business, but I will be a better farmer and citizen without Government subsidy. I don't think we need to change from the Federal Crop Insurance Corporation to a giveaway program. Let's keep the insurance program that we know works and expand it only if growers are willing to pay for it.

Thank you.

Senator HUDDLESTON. Thank you, Mr. Worthington.

You mentioned tobacco. I understand that it is one of the better programs under FCIC, not only in terms of percentage of participation, but because coverage is higher and the premiums are lower in comparison with some other programs. What effect do you think the administration bill would have on tobacco?

Mr. WORTHINGTON. Well, it is really hard to say since I don't know exactly what it would have been. I read the Federal Register last year and—

Senator HUDDLESTON. Do you think the tobacco program is adequate now?

Mr. WORTHINGTON. I do, very adequate.

Senator HUDDLESTON. It is true that generally you are in favor of actuarially sound programs?

Mr. WORTHINGTON. That is right.

Senator HUDDLESTON. Do you favor extended coverage to other crops?

Mr. WORTHINGTON. If the growers are willing to pay the bill. I feel like the less Government the better; the less subsidy, the better.

Senator HUDDLESTON. Do you oppose subsidy on the premiums, too?

Mr. WORTHINGTON. Yes, sir. I think if the growers aren't willing to pay for it, then it is not a sound program.

Senator HUDDLESTON. I think, if we had more of that attitude around here, we might decrease our costs considerably.

Mr. WORTHINGTON. Thank you.

Senator HUDDLESTON. Thank you for your testimony.

Mr. Stephen G. Kellison, executive director, American Academy of Actuaries.

STATEMENT OF STEPHEN G. KELLISON, EXECUTIVE DIRECTOR, AMERICAN ACADEMY OF ACTUARIES

Mr. KELLISON. Mr. Chairman, my name is Stephen G. Kellison and I am the executive director of the American Academy of Actuaries. The academy appreciates the invitation to present testimony at this hearing.

During the last session of the Congress, the academy presented testimony to both Houses of the Congress in connection with hearings on crop insurance programs. Attached to this statement is a copy of our previous statement to this committee dated November 15, 1977. We would request that both be entered in the record of this hearing.

Senator HUDDLESTON. Without objection, the November 15 statement will be entered in the record.¹

Mr. KELLISON. The interests of the academy as a professional association of actuaries in connection with crop insurance legislation have not changed materially, since our prior statement. Our primary interests are to insure:

One: That actuarial activity is identified as such.

Two: That actuarial techniques are being properly applied where appropriate.

Three: That actuarial work is being performed by qualified actuaries.

The academy has consistently not taken a position on how the costs of various crop insurance proposals should be borne by various individuals and groups in the private or public sectors. However, we do urge that these programs be funded according to sound actuarial principles, that current costs be properly and clearly identified as such, that appropriate reserve levels be established, and that projections of costs for future years be made by professional actuaries.

¹ See p. 135 for the statement referred to by Mr. Kellison.

During the deliberations involving crop insurance proposals in the last session of the Congress, many references to the desirability of an "actuarially sound" crop insurance program were made by Secretary Bergland, Mr. Deal, various Members of the Congress, and others interested in crop insurance legislation. We are gratified at these expressed intentions to establish an actuarially sound program and hope that these intentions will continue in this Congress.

We are aware that an Ad Hoc Crop Insurance Actuarial Committee of leading actuaries in the crop insurance area was formed in 1978 to review the cost estimates of the Farm Production Protection Act being considered in the last Congress. This committee met last September with officials of the Federal Crop Insurance Corporation concerning the cost estimates on last year's bill.

We are encouraged by these developments since our last statement. We feel that there is increased awareness of the need for proper actuarial estimates of the cost of these programs and are pleased that increased attention to these actuarial estimates is being given.

Since we have received the invitation to appear here today only a few days ago, we have not had time to develop any more detailed analyses of the proposals before you today. However, we do appreciate the opportunity to enter these brief preliminary remarks into the record, and we do intend to enter more extensive comments at a later date if the opportunity becomes available.

I would like to move away from my prepared remarks for just a moment to discuss in a little more detail the work of this ad hoc actuarial committee that I referred to briefly earlier. The chairman of this committee is Mr. Richard Bill, and he has presented testimony to the House Subcommittee on Conservation and Credit of the House Committee on Agriculture on February 28. I notice that he is not scheduled to provide any testimony at this hearing. I would encourage that the statement that he made to the House be also made a part of the record of this hearing. I would be happy to provide that to the committee.

Senator HUDDLESTON. I might point out that the record will, of course, remain open for any further testimony that you and any other witness might want to submit to us.

Mr. KELLISON. That would be fine. I think we would like to put this into the record.¹

This, I might emphasize, is not officially an academy committee, but is a group of actuaries interested in the area. It is not an academy-sanctioned statement, but we feel it sheds light on the subject and is one that should be part of the background of the hearing.

The committee's original estimate on the bill in the last session of Congress was in the range of \$812 million to \$1.37 billion of cost to the Federal Government. The reason for the rather wide range is not only the variability inherent in any insurance program, but the fact, as was mentioned by, I think, Mr. Wilson earlier, that the bill that has been introduced is very general in some areas and would be open to a lot of different interpretations according to how it was implemented by the Department of Agriculture. I would second his thoughts that we would hope the Congress would be a little more definitive in certain areas to try to pinpoint the design of the program.

¹ See p. 136 for the Feb. 28, 1979 statement of Mr. Bill before the House Committee on Agriculture.

These estimates have been revised upward slightly and the testimony that was given last month to \$1.22 billion of costs. This estimate is somewhat larger, I think, than the official Department of Agriculture estimate, and was the subject of this meeting that I mentioned earlier between FCIC officials and this actuarial committee. Some of the reasons for the differences, the different assumptions that were made in the estimates, are included in this statement and would be available in the record.

The academy does stand ready to be of service to the Congress and the administration on matters of actuarial concern. If we can be of further assistance to you, please do not hesitate to call upon us.

Thank you.

Senator HUDDLESTON. Thank you, Mr. Kellison.

Is it possible for an insurance program to cover a farmer's entire cost of production and remain actuarially sound or would the premium rates be prohibitively high?

Mr. KELLISON. Well, certainly the higher the percentage, the higher the premium, there is no question about that. I think in most of the casualty insurance coverages, which basically crop insurance is, that the private sector has found it necessary to have some cost sharing by the individuals involved in order to create an incentive to eliminate or minimize risk. Certainly on your automobile insurance there are normally deductibles, the same thing on homeowners insurance. I think to remove all of the financial incentive to reduce or eliminate risk is probably unwise, so we do feel some modest sharing is generally necessary in a voluntary program for that purpose.

Senator HUDDLESTON. Much has been said about the tendency towards adverse selection in the Federal crop insurance program. Do you think there is a substantial degree of adverse selection in the program today?

Mr. KELLISON. I am not really competent to answer that question. Unfortunately, I had hoped to have the chairman of the academy task force working in this area with me today and he was unable to make it, so I really don't feel prepared to answer that question. I think that in general the degree of adverse selection is inversely related to the percentage of participation in the program. Higher levels of participation, of course, minimize the risk of adverse selection.

Lower levels of participation tend to increase it. So the higher you can achieve in terms of percentage participation, the less risk of anti-selection there would be.

Senator HUDDLESTON. Is there a sound actuarial basis for an expansion of Federal crop insurance into livestock and poultry?

Mr. KELLISON. Again I am not certain of the answer to that. I would have to defer to our experts on that.

Senator HUDDLESTON. How about timber?

Mr. KELLISON. I am not prepared to answer that question, either.

Senator HUDDLESTON. Thank you very much, Mr. Kellison. We appreciate your testimony.

Joseph McGrath?

STATEMENT OF JOSEPH B. McGRATH, VICE PRESIDENT, GOVERNMENTAL AFFAIRS, NATIONAL FOREST PRODUCTS ASSOCIATION, ACCOMPANIED BY JOSEPH HINSON, MANAGER, PRIVATE FORESTRY

Mr. McGRATH. Mr. Chairman, my name is Joseph McGrath and I am vice president, government affairs, with the National Forest Products Association. I have with me this morning Mr. Joseph Hinson, who is not only an eminent forester, but also is manager of our division of private forestry.

With your permission, I would like to submit our complete statement for the record.¹

Senator HUDDLESTON. Without objection, it will be included in the record in its entirety.

Mr. McGRATH. I would simply say, in order to be brief, that we are a federation of 29 regional forest industry organizations, with 15 direct company members. We represent all of the growers, and manufacturers, and the wholesalers, of timber and solid wood products in the United States.

We support the inclusion of timber and forests in the legislation to expand the Department of Agriculture's disaster insurance coverage for agricultural crops. We think availability of insurance against natural hazards which destroy or damage timber can be a major incentive to encourage private, nonindustrial landowners to manage their woodlands for timber production.

With your permission, Mr. Chairman, I would like to comment just briefly on the bills pending before the committee, plus the administration's proposal.

We have examined them carefully and can say from the standpoint of the timber industry that we prefer S. 644, which you introduced on March 13. The reasons are that the language of the bill more nearly, I think, suits the coverage that we think would be helpful to the timber and the forest growers of the country.

For example, on page 2, in the definition of agriculture products, not only timber and forests are included, but also nursery stocks, which are especially important for the future reforestation of lands.

Also, on page 3, we note with approval that included in the term "production costs" is interest on operating capital and other materials. In our prepared statement, which has been submitted, we make the point that in previous proposals interest, which is a crucial factor for timber growers, was not included and should have been.

We are pleased to see that it is your bill and, finally, Senator, on pages 10 and 11, we think that the coverage which is included in the language under section 9(a) is comprehensive so that when and if the Department of Agriculture expands crop insurance to cover timber and forestry, this language would be adequate.

We also want to say that, with just a couple exceptions, the proposal which we have seen, which has been submitted by the administration, but I don't think yet introduced as such, is also something that we can support. With respect to S. 647, which you introduced on March 13, and S. 399 introduced by Senator Dole and other Senators on Feb-

¹ See p. 140 for the prepared statement of Mr. McGrath.

ruary 8, these bills do not contain the language which I have just described. Therefore really we support S. 644 and hope that in the final considerations of the committee it would be that language which you adopt.

There is one other point. In preparing for the hearing today I had the chance to examine the testimony given last year. There are four volumes of it, and I read it fairly carefully. At no point was there any criticism whatsoever of the inclusion of timber and forests. The colloquy is helpful in which the Chairman and you, Senator Huddleston, engaged Secretary Bergland at the very outset of the hearing. You were inquiring as to the intentions of the Department of Agriculture should timber and forest be included under crop insurance. I think it is very important to have the inclusion of that language in this record because the point is made by the Secretary that they regard this as an experimental program. They plan to move into it two or three years into the future. I would hope that colloquy could be included here, perhaps. It is page 7 of Volume I of the hearings, May 2, 1978. I would hope that colloquy which bears on this precise point could be included in the record for this session of the Congress.

Senator HUDDLESTON. We will order that be done, without objection. [The document referred to follows:]

Senator HUDDLESTON. Now, you include provisions for insurance of timber in the forest. Is this something new in crop insurance? How will that work?

Secretary BERGLAND. Yes, sir, that would be new. It would be based on the same sort of actuarial data which would apply to other crops.

We do not have the necessary information on a timber and forest resource policy yet on which to base either a rate structure or a benefit structure. We would need to gather that data.

Senator HUDDLESTON. Would timber policies include fire—fire losses—

Secretary BERGLAND. May I yield to my associate, Mr. Chairman?

Senator HUDDLESTON. Yes.

Mr. DEAL. Yes. As we move into experimental programs, of course, we would look at what the need is and either could or could not get involved in that.

I would think as we move into specialty areas, we would get at what we call more specific risks, by naming the peril, rather than getting into an all-risk type policy.

Senator HUDDLESTON. It is not expected that these programs would be included in the initial operation, then?

Mr. DEAL. No.

Senator HUDDLESTON. For timber and livestock—you have provisions for it, but it will have to be developed?

Mr. DEAL. Provisions. We are looking at the very earliest to move into probably one or two very limited experimental programs probably 2 to 3 years after enactment, when we are over the original thrust of getting into the basic commodities.

Mr. McGRATH. Our concerns stem from the fact that timber growing is hazardous and it is hazardous for a number of reasons. A major concern expressed by many of the landowners when they consider whether or not to reforest land is the high risk associated with forestry investment. Landowners are afraid of losing both the stands and the trees and their total investment through fire, insect and disease attack, hurricane, drought, or ice storms. Presently there is no all-risk casualty insurance coverage available. I hope that the Department, stimulated by the passage of this bill, will look toward that kind of coverage. Insurance coverage as proposed in the legislation now being considered could be a major incentive for nonindustrial landowners to grow timber on their lands.

We also want to stress, as part of our statement that we join with the insurance companies, the American Bankers Association and some of the private financiers of farm and farm crops in hoping that an emphasis could be made on having private companies do this. We have ourselves, representing the timber industry, examined into the question of whether there are any companies that are interested. We find there are one or two whose interest has been aroused initially over the last year. We think the passage of this legislation could very well lead to the kind of insurance coverage supplied by private companies, perhaps backed up by the Federal Government in some form of reinsurance. That would be extraordinarily helpful in the reforestation of the private forest lands of the country, which lie largely in the South, Southeast, and Northeast.

The final point, Mr. Chairman, I would like to make is that timber supply is crucial to the country. I think you, along with other Members of the Congress, are aware of the pressures on the great Federal forests of the West. There is a constant process of land withdrawal. This year and in the next several years, this process is going to curtail timber supply from the public lands so that they can be used for other public uses. That puts a great pressure on production of timber, production and management of forests on privately owned lands. A substantial portion of the additional wood which the country is going to need is softwood, commonly used for housing construction, and paper products. The softwood timber species must often be grown under intensive silvicultural practices, which requires a high initial investment by the landowner for reforestation. Private nonindustrial landowners all too often do not perceive an advantage to reforesting harvested softwood stands. The Forest Service estimates that each year up to a million acres of high quality pine lands go unreforested and revert to undesirable hardwood species and brush. This is a serious problem for all of the mills that depend on private, nonindustrial lands for their raw material needs and for the American consumers who depend upon the products we produce. We foresee this will go even higher than we experienced in the last 2 or 3 years.

So, in conclusion, we support the legislation and feel timber casualty insurance can be an effective incentive for nonindustrial landowners to manage their lands for the growth of timber. I think that in meeting the demand for wood by the turn of the century, we are totally dependent on the actions we take now, not only with respect to the western public lands, but also with respect to what we have done to stimulate the growth of wood fiber on the privately owned lands largely in the East. So we think this is timely, the legislation is timely. We support Secretary Bergland's urging of the Congress that action be taken as quickly as possible to put the legislation through and with the addition of the interest, which is in your bill, as a cost of production. We certainly think the legislation is sound; we support it and we would like to work with your committee and its staff in any way that we can to pursue the bill.

Senator HUDDLESTON. Thank you very much.

How do you envision that timber and forest crop insurance would work? Would there be one premium and one policy that would cover the entire growing cycle or would it be necessary to have a new policy, a new premium every year?

Mr. McGRATH. I am not sure that I am entirely competent or, for that matter, I am not sure that anybody is entirely competent to answer the question. Mr. Deal, in responding to this, pointed out that in approaching timber they would think in terms of specific hazards to be insured against. It would be done, as I would envision it, with respect to separate independent landowners reforesting lands, thinking in terms of growing the timber, protecting the crop, and they would be able to take out an insurance policy on that timber on that land for a specific risk.

Senator HUDDLESTON. For a specific period of time?

Mr. McGRATH. Yes; and how the Department anticipates working out the details, the actuarial details, I can't answer now because we think this is going to take anywhere from 2 to 3 years or maybe a little longer, with the cooperation of the insurance companies.

Perhaps Mr. Hinson could supplement my remarks.

Senator HUDDLESTON. Do you have any comments?

Mr. HINSON. Just that generally it would seem more efficient if, as Mr. McGrath said, one insurance policy could be purchased which would cover substantial portions of the timber stand perhaps until the timber reached a merchantable size and had a commercial value.

Senator HUDDLESTON. Forestry is a little different from farming in that the owner of the land is generally not living on it, and is not participating on a day-to-day basis. How would you sell that kind of insurance? Would it be more difficult to find the owner to make the sales presentation to him?

Mr. McGRATH. I will let Joe respond to your question and then supplement his remarks.

Mr. HINSON. I think in some cases it would be an instance of making the availability of insurance known to the landowners and then let them come to the appropriate sellers, be it either the Federal Crop Insurance representatives or private insurers.

Senator HUDDLESTON. Do you think individual landowners, those who hold maybe no more than 100 acres, would be as interested in this as the large corporation owners who hold many thousand of acres?

Mr. McGRATH. We hope so. We are thinking in terms of the non-industrial landowner as opposed to the large corporation that would be fully able, perhaps, to carry its own risk. We are thinking of the smaller owner of lands. That smaller owner is already in touch with the county agency and the Department in many different ways and, of course, the forestry incentive program which has been in operation now over the last 6 years has been an excellent point of contact for those owners because it assists in supplying some of the—

Senator HUDDLESTON. Would you say that the small owner is important to the future of the industry because the corporations that are in the business generally are going to do the reforestation that might be required?

Mr. McGRATH. On their own lands I think they will because it is their asset for the future, Senator. The small landowner owns the bulk of the forest lands that are privately owned. The U.S. Government owns the rest, and the small landowner is really the supplier of wood fiber to the sawmills and the papermills throughout the Southeast, and also in the Northeast. We represent over 2,500 mills, Mr.

Chairman, and a large bulk of those buy their wood fiber from the independent forest land owners.

Mill owners will assist in managing lands, if necessary, and their hope is they will be able to purchase the timber when it is available.

Senator HUDDLESTON. So in a sense the small owner participates in the program and has a direct bearing on what timber will be available?

Mr. McGRATH. Very much so, Senator, and that is really the basis of our concern. We have been doing a survey on States to find out exactly what is happening on the nonindustrial privately owned lands in terms of reforestation, and we find, to our dismay, that a sizable percentage of the lands are not being reforested. This is running counter to the interests of our industry in terms of the supply of the raw product, but it is also running counter to the economic welfare of the States and counties and regions that are involved.

Senator HUDDLESTON. And is it your judgment that the security an insurance program would offer may encourage the smaller owners to make that investment?

Mr. McGRATH. Yes, our view is it would remove one of the hazards that affect an investor, a small owner, who wonders whether it is really worthwhile to plant trees.

Senator HUDDLESTON. He can't get any immediate return from it, can he?

Mr. McGRATH. Right. It is a future hope and trust and we are trying to help assure him that yes, it is worth it.

Senator HUDDLESTON. Thank you very much, Mr. McGrath and Mr. Hinson.

That completes our list of witnesses for today. The subcommittee will stand in recess until Thursday, March 29, at 9 a.m.

[Whereupon, at 10:20 a.m., the subcommittee recessed, to reconvene at 9 a.m., Thursday, March 29, 1979, in room 324, Russell Senate Office Building.]

REVISIONS IN THE FEDERAL CROP INSURANCE PROGRAM

THURSDAY, MARCH 29, 1979

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 324, Russell Senate Office Building, Hon. Walter D. Huddleston (chairman of the subcommittee) presiding.

Present: Senators Huddleston, McGovern, Stone, Zorinsky, and Cochran.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. The Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices will come to order.

I would like to welcome everyone to today's hearing.

This is a continuation of hearings that the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices has been holding on Federal crop insurance and disaster programs.

We have been reviewing a number of proposals designed to expand crop insurance on a nationwide basis. These include S. 399, S. 644, S. 646, and S. 647, and the administration proposal which was recently introduced, S. 713.

The witnesses today should feel free to discuss any of the bills that have been introduced or to give their thoughts on any other proposals they feel would be beneficial to the development of a comprehensive crop insurance program.

The first witness to be called to testify will be Mr. Robert Nash, president of the Georgia Farm Bureau Federation.

I would like to welcome you, Mr. Nash, on behalf of Senator Talmadge and the rest of the Agriculture Committee.

I would like to point out that Mr. Nash is president of the Georgia Farm Bureau Federation. He is appearing before the Committee on Agriculture, Nutrition, and Forestry for the first time.

As an admirer of the chairman of this committee and of the State of Georgia, Mr. Nash, I would like to give you a special welcome to our committee. Senator Talmadge sends his regrets that he cannot be with us at the present time, and has requested that I give you an especially warm welcome from this committee.

I am sure that the subcommittee will benefit greatly from your testimony.

With that, I would like to propose that we adhere to a 10-minute time limit. The bell will go off at the end of the 10-minute limit. Unfortunately, this is necessary because of the number of witnesses who wish to testify on these bills. In addition, there will be a question and answer period.

If you feel that your prepared testimony is too lengthy to complete in a period of 10 minutes, you may summarize, and your testimony will be placed in the record, in its entirety.

With that, Mr. Nash, you may begin your comments.

STATEMENT OF ROBERT NASH, PRESIDENT, GEORGIA FARM BUREAU FEDERATION, MACON, GA.

Mr. NASH. Thank you, Senator. I am Robert Nash, president of the Georgia Farm Bureau. Georgia Farm Bureau Federation is the State's largest general farm organization, with more than 125,000 members. Producers in Georgia Farm Bureau represent every county in the State. We appreciate this opportunity to present Georgia Farm Bureau's views on agricultural production protection.

Our producers are interested in protecting their investments in crop production and they need the capability of purchasing insurance to provide assurance that production costs can be met. Two years of devastating drought in our State has our producers woefully in debt and they are being asked by their sources of credit to obtain crop production insurance.

The current farm program approach of the Government is based on affording price protection or floors to certain basic crops if the crop is produced. These levels (excluding peanuts and tobacco) are mostly under or near certain cost—not at a profit but a floor. But in case of weather disaster and crop failure or damage, there is no effective program to fall back upon, except the four disaster programs which have been deemed overlapping and proposed to be phased out should a new program be developed.

Farmers costs are becoming so prohibitive that a 1-year loss by drought or flood will be such that some would never recuperate. This involves risk and credit for both the young and older farmers.

Georgia Farm Bureau recommends that a new, more comprehensive crop protection program be developed, that the coverage of protection be tied to a production cost. We support replacement of the present USDA disaster program by a program providing coverage under multiperil crop insurance based on actuarially sound data including all costs and expenses involved.

We oppose inclusion of crop fire and hail coverage or authority for livestock and poultry coverage in the new program. We believe that Congress should include the language in the bill to make it clear that this is a crop insurance program rather than a farm product insurance program.

We recommend that any new crop protection program should have Government participation up to 50 percent of the protection level and the purchasers of crop insurance from the private sector should receive the same subsidy as those purchasing Federal crop insurance.

We oppose the reorganization of the Federal Crop Insurance Corporation into another Government agency which would be only a move to set up a Federal bureaucracy.

We recommend that a new crop protection program be designed to provide protection to producers against losses due to drought, flood, catastrophic-type losses, and that it be administered by trained, responsible personnel to prevent it from becoming another disaster in itself.

We believe that for this type of program to be successful, it must contain a high percentage of participation on a national basis and be made available to all counties where it is so deemed needed.

We strongly support enactment of a comprehensive crop insurance program and recommend that if it is not established prior to the end of the 1979 crop year, that an extension of a tightly administered disaster program be continued for no more than 2 years.

We appreciate this opportunity to comment on this most important issue and urge this committee to urgently consider developing a cooperative self-help crop protection program that will cause minimal reliance on the Federal Treasury.

I appreciate being here and speaking to this committee.

Senator HUDDLESTON. Thank you. We are glad to have you.

Do you feel any Federal crop insurance program ought to be available to all farmers in the State of Georgia, and throughout the country?

Mr. NASH. Yes, we do.

We have only 44 counties in our State that have 1 or more crops that are covered under the present Government program and we have farmers that farm in 2 counties and they are insured in 1 county and not in another, and therefore a disaster can reach across county lines. We think it should be a nationwide program.

Senator HUDDLESTON. Can it be sold?

Mr. NASH. If the cost is not too extreme, it can be sold to farmers.

When they have gone through what we have gone through in Georgia the last 2 years, they have some protection.

Senator HUDDLESTON. How should this be sold?

Mr. NASH. One way to be sold is through a combination of Government and private insurance.

The other way would be to have trained personnel that would actually be out there in the field, and would be handling programs on the basis of making it a financially sound program that would be available. I am sure that it would have to be subsidized, certainly a part of the premium, by the Government in order to make this assurance.

Senator HUDDLESTON. What agency do you think should be chiefly responsible for crop insurance?

Mr. NASH. We personally do not feel that CCC should be the agency to head this up because they are involved in too many other fields. Insurance is something that technically must be controlled and certainly there are very many regulations all of which would have to be enforced. It can't be enforced by overall coverage.

There are individual problems involved in each case.

Senator HUDDLESTON. To what extent should the USDA be involved.

Mr. NASH. If they had the trained personnel actually to do this,

possibly they could be very much involved. But one of our own counties in Georgia has been a pilot county under ASCS.

The personnel have not been trained well enough to make it a really functional program.

Senator HUDDLESTON. Senator Zorinsky, I appreciate your chairing and getting the hearing started. I am sorry I was running a little late. I was meeting with a group of farmers.

Do you have any questions?

Senator ZORINSKY. Thank you, Mr. Chairman.

Mr. Nash, I discussed the revision of the Federal disaster crop insurance program with many farmers in my State. They indicated that regardless of which Department it may be in back here, HEW, HUD, Agriculture, there always seems to be an excess of paperwork, which is, as you pointed out, to implement rules and regulations that are always in abundance.

In making the proposal to revise our Federal crop insurance program—which many people in the industry today consider a Federal disaster program itself—do you have any recommendations, on how to simplify the paperwork?

The morass of redtape and bureaucracy is great back here and we all do what we can to reduce it.

You are at the receiving end of all that. With all the experience we have, it seems we ought to be able to centralize our reporting system on disaster payments and simplify it for the farmer to be able to make application because now many of them get lost in the system.

Mr. NASH. I might suggest this to the committee and we would like to submit some suggestions along this line, but I think too often that those farmers who have to fill out the programs are not even consulted as to what they could understand and what they use in reporting their record.

In other words, the people writing the rules and regulations don't understand the problem out there in the country well enough to write a rule for them.

I think you need the input from the grassroots to the committee that is writing these rules where they can better understand what the average farmer can fill out and do it accurately.

Senator ZORINSKY. It is unfortunate that after we present our intent in the form of legislation and through passage in Congress, the bureaucracy takes hold of that intent and converts it according to their own philosophy. By the time it reaches the grassroots farmer who is supposedly served by the Federal program, it has gotten out of hand.

That is why I think it would be very beneficial for us if you, in your meetings throughout the State of Georgia, with other people of similar interests, make recommendations to this committee. We should all get in at the ground level of writing this thing, to ensure that everybody can understand, and it will be available to everybody to have its services.

Mr. NASH. We appreciate this opportunity.

I tried to give an overall picture.

We would like to present the committee with details of this report.

We think we would need a form or system that the farmer could use to be able to comply with the regulations.

Senator ZORINSKY. Thank you very much.

Senator HUDDLESTON. Thank you.

Senator COCHRAN. May I ask a question, Mr. Chairman?

Senator HUDDLESTON. I am sorry.

Senator COCHRAN. We appreciate your being here.

I think your testimony will be very helpful to the committee. You mentioned that you think any program we have ought to have Government participation, up to 50 percent.

Are you referring to 50 percent, as a subsidy in helping pay premiums, or would this be simply half of the loss that would be payable out of the program?

Mr. NASH. I really tried to include both items.

I did not make it clear enough.

I think the Government would have to participate in the premium end of it, but not over 50 percent. Should a large catastrophe-type loss happen, similar to what we have had in the drought area, then the Government may possibly have to come in and subsidize. Should this happen, and if there is also private insurance in force, they should be entitled to the same subsidy. The fact that their costs do go up, they would be eliminated from even private insurance, especially in the fire-hail area. For this reason we feel the fire-hail insurance should be out of this program. If you only reach a one-third loss and the farm only has 70 percent of its loss involved he is paying under the Federal program; then in order to draw anything, hail damage coming across one corner of his farm, but not his entire crop, under this program, he would receive nothing for that loss.

So, he needs additional protection if hail wipes out his whole field or his whole farm. Insurance should be on a wide area, statewide, then the loss to the farmer wouldn't be so great that it would break them.

Therefore, we feel like the lost cost should be spread nationwide rather than individual States.

Senator COCHRAN. One other question, and it relates to production costs.

You mentioned that protection be tied to production costs.

Mr. NASH. Yes, sir.

Senator COCHRAN. I am curious how you would approach the calculation of production costs. Would it be on a per farm basis, or a county basis, or a regional basis, and who would decide and how would they decide what the production costs would be?

Mr. NASH. This would have to be done by an actuarial department in the insurance program. I think it would have to be done on an area, State, regional basis, because costs of production in one area is much higher than it is in others, and in some areas you have a ratio of cash/rent; some others, crop/rent.

It would have to be, I think, on a regional basis, and then done maybe on a State basis. I believe in this program that it should be broken down because of various costs of production and cost of land that becomes involved.

This is one area that has not been stabilized enough in many of the farm programs to determine what are the actual production costs of any one crop across the whole Nation.

Senator COCHRAN. Over in Mississippi, we have very different kinds of land, for example, the delta is different from the hill section of the State or the prairie section, even, and you are talking about yields that

are considerably different, and you are talking about also cost of production that varies widely, even within the State, and I was curious how you would approach this problem.

Calculating yield is very difficult. In some crops, we don't even have a procedure for calculating.

Thank you very much. I appreciate your being here.

Senator HUDDLESTON. Thank you.

Our next witness is Daniel J. Morrissey and his group.

Mr. MORRISSEY. Good morning, Mr. Chairman.

We have a full statement to present today, but in the interest of time, I have prepared a short oral summary of it, and I would therefore request that the full statement be included in the record.¹

Senator HUDDLESTON. Without objection, the full statement will be in the record.

Mr. MORRISSEY. Thank you, Mr. Chairman.

With me today is Mr. Fred Benson and Mr. Richard Bill, and Mr. Bill has a statement to make when I am finished.

Senator HUDDLESTON. Without objection.

STATEMENT OF DANIEL J. MORRISSEY, EXECUTIVE VICE PRESIDENT, LOHMAN BROS. INSURANCE AGENCY, GENESEO, ILL., REPRESENTING THE NATIONAL CROP INSURANCE COUNCIL; ACCOMPANIED BY RICHARD BILL AND FRED BENSON

Mr. MORRISSEY. I appear before you in behalf of the total private crop insurance industry which, under auspices of the National Crop Insurance Council, has in unanimity formulated a position reflecting the concerns of our companies and agents, stock and mutual, large and small, who write crop-hail insurance and other insurances needed by farmers. The National Crop Insurance Council (NCIC) is a forum of insurance trade associations consisting of the following:

American Insurance Association—AIA—147 companies.

Alliance of American Insurers—AAI—166 companies.

Crop Insurance Research Bureau, Inc.—CIRB—31 companies.

National Association of Independent Insurers—NAII—450 companies.

Independent Insurance Agents of America, Inc.—IIAA—150,000 agents.

Professional Insurance Agents—PIA—42,000 agents.

National Association of Mutual Insurance Companies—NAMIC—1,107 companies.

National Crop Insurance Association—NCIA—104 companies.

Thirty State/regional agent association affiliates.

This united industry position will be presented in three parts:

A. Deletion of hail, fire, and lightning in Federal crop insurance programs, and provide for realistic reinsurance of private insurers and deletion of the 20-county limitation.

B. Opposition to the administration's Farm Production Protection Act.

C. Some suggested legislative alternatives.

¹ See p. 142 for the prepared statement of Mr. Morrissey.

Now for part A of our position statement :

One: We wish the Congress, most of all, that it decline all proposals which would preempt or threaten our ongoing free enterprise endeavors in crop-hail insurance. For more than 65 years, we have successfully and to the satisfaction of the farmers provided this coverage throughout the Nation. We see it as neither right nor necessary for this successful, taxpaying enterprise to be destroyed or threatened by any Government program.

We view the administration's proposal in its present form, coupled with expressed goals of the administration of at least 68 percent participation, as the nationalization of the crop insurance business. The broad provisions as to coverages, the expansion nationwide, the establishment of a nationwide agency system, the unlimited subsidy of premium and expense and the benefits leaves little doubt that, as a satisfactory substitute for the present free disaster program, a nationalization crop insurance program will result and the private crop insurance industry will be eliminated.

We therefore recommend the deletion of hail and fire and harvested crop coverage from all Federal Government crop insurance programs.

Two: The crop insurance industry has for 9 years been engaged in experimental development of multiple peril crop insurance comparable to that offered by FCIC. Companies and agents have learned much in this area. But the nature of the risk involved requires catastrophe reinsurance beyond the resources available to private industry. With proper reinsurance provided by Government, private industry could, under acceptable conditions and through its countrywide agency system, extend the availability of all-risk crop insurance to all who are interested. This could be accomplished without additional Government employees and facilities. We therefore recommend deletion of the 20-county limitation in the present FCIC Act and inclusion of a provision for catastrophe reinsurance to private industry.

In addition, we recommend that the Federal subsidy enjoyed by the customers of FCIC be extended to the customers of private companies.

Part B: Our principal objections to the administration proposals are briefly as follows:

One: The administration has grossly understated the cost of this proposed program. The administration bill authorizes too much discretion, for any reason, so much that there is probably no way to estimate the ultimate cost if maximum authorized discretion were exercised. The results of a study by private actuaries pointing to this cost discrepancy will be presented by Richard Bill, who is next.

Two: We are aware of no demonstrated general unmet need or desire of farmers for insurance other than on crop production. We therefore believe that the Federal program, if any, should be limited to growing crops.

Three: Insurance agents in every community of the crop growing areas would be affected by the loss of their crop-hail insurance business. Thousands of company employees, adjusters, and field men would also be displaced. Agents have rejected all proposals of the administration to market through them as being unfair and unrealistic, since ownership of the business would remain with the Government.

Part C. Legislative alternatives:

Recognizing that there is a need for some action soon, we commend you in your consideration S. 399, introduced by Senator Dole, and S. 646, introduced by Senator Huddleston. The following are the essential elements with which we are concerned and which, in our view, are all that are needed at this time:

One: Eliminate hail and fire insurance from FCIC coverages as well as the insurance on harvested crops; these are completely and adequately provided by the private insurance industry to the satisfaction of farmers.

Two: Facilitate the extension of availability of all-risk crop insurance:

(a) Remove the 150 annual new county limitation on expansion of FCIC; (b) Provide a realistic reinsurance facility for private companies or pools of companies; (c) Once and for all, for at least the near future, responsibly and adequately fund FCIC.

Three: The rate structure for Federal crop insurance should include a full and complete direct and indirect costs of administration as well as of indemnities. This is important for several reasons, two of which are especially pertinent to this context are: First, so that the Congress and the farmer realize the true extent of subsidy; second, so that if private companies are ever involved in a partnership to extend the availability of all-risk crop insurance the Federal support, if any, may be equal to customers of either source.

In conclusion, I would reiterate three major points which we trust we have made.

One: The administration's costly proposal goes far beyond the demonstrated needs of farmers.

We are united in our opposition to it.

Two: The administration's proposal threatens the private crop-hail insurance industry. No reason to preempt or to "nationalize it," is demonstrated as superseding even the administration's professed preference for letting private industry do what it can do best.

Three: We urge you to enact only such a new law as is necessary to avail to all farmers only that which private industry cannot do.

This concludes our oral summary of our written statement. We thank the committee for this opportunity to appear before you. Mr. Chairman, the entire private crop insurance industry stands ready and willing to work toward a crop program which will be at minimum cost to the taxpayers and yet meet the needs of farmers and consumers.

Senator HUDDLESTON. Thank you.

Mr. Bill?

Mr. BILL. I am Richard Bill.

I would also like to summarize my statement and have the entire statement inserted in the record.¹

Senator HUDDLESTON. The statement will be put in the record in its entirety.

**STATEMENT OF RICHARD BILL, CHAIRMAN, CROP INSURANCE
ACTUARIAL COMMITTEE, NATIONAL CROP INSURANCE COUNCIL**

Mr. BILL. Mr. Chairman and members of the committee, I am Richard Bill, actuary of Country Mutual Insurance Co. During 1978 an ad hoc committee of casualty actuaries experimented in crop in-

¹ See p. 145 for the prepared statement of Mr. Bill.

insurance ratemaking, was formed at the request of the National Crop Insurance Association.

Our committee was formed for the purpose of developing a cost analysis of the administration's Farm Production Protection Act introduced in the last session of Congress. As professional actuaries, we felt our role would be limited to the cost analysis and thus our committee did not and should not attempt to make value judgments as to the desirability of one program versus another.

The administration's proposed Farm Production Protection Act greatly expands the role of the Federal Government in crop insurance. Increased participation in Federal crop insurance would be obtained by providing premium subsidies to farmers and expanding the role of commissioned insurance agents in selling Federal crop insurance. The administration projects an increase in the insured acreage from approximately the present FCIC level of 8 to 68 percent within 3 years after the program is implemented.

The result of our cost analysis, developed in 1978, indicated annual Federal cost of between \$812 million and \$1.137 billion for the 18 initial crops. USDA's estimate was \$542 million consisting of \$395 million of premium subsidies and \$147 million of expenses.

Subsequently, we learned the \$542 million estimate was for all crops instead of just the initial 18. The committee has revised our analysis to include all crops in addition to a few other adjustments to update our estimate.

The committee's revised estimate for all crops is shown below :

	<i>Millions</i>
18 initial crops.....	\$917
Other crops.....	303
	<hr/>
All crops.....	1, 220

Also, USDA has recently updated their estimate from \$542 million to \$632 million annual cost.

The \$1.220 billion estimate is based on presumed USDA intentions and FCIC loss history. This estimate may be understated since no adjustments were made for the following items which will tend to increase Federal cost :

One, ability of management to exercise underwriting discretion and/or cancellation appears to be limited if not removed from the new program.

Two, the anticipated increase in participation from 8 percent to 68 percent and the introduction of new crops, in a shortspan of 3 years, may lead to unsound underwriting practices due to the large influx of inexperienced and untrained people in a short period of time.

Three, with a large increase in the insured price per bushel, some farmers may have less incentive to maximize yield once the yield falls below the guarantee level.

Four, the estimate does not include cost of prevented plantings coverage which can be covered under the new program and is presently covered by the disaster program.

Estimated indemnities were based on 1948 through 1977 FCIC loss experience applied to production based on 1978 planted acres. FCIC experience, assuming an average 60 percent level of coverage, was adjusted for the proposed protection levels of 50 percent, 70 percent,

and 90 percent by developing a model based on accepted statistical procedures. Results of a study reported in the "Task Force 70" report (a study of FCIC operations) produced similar results. Our analysis indicated that the USDA rate relationship for the 90 percent protection level significantly understates the rate—therefore the cost—for the 90 percent level of protection.

The committee questions whether it should be for high risk areas.

A substantial number of counties or portions of counties are not now eligible for FCIC insurance due to the high risk nature of the area. We assumed inclusion of these areas will increase the long-term loss per \$100 of insurance by 20 percent.

The projected Federal cost of \$1.220 billion assumes rates are set on an actuarially sound basis and with sound underwriting principles in setting individual guarantee levels.

The Federal cost would be even higher than \$1.2 billion.

Traditionally, FCIC has strived for a 90-percent loss ratio. The 10-percent margin was to provide a reserve for unforeseen losses since the number of years of experience available for ratemaking does not reflect a full cycle of weather hazards.

Since the levels of subsidy are not specified in the act, costing was based on inferred USDA intent. Subsidy and therefore Federal cost could be increased or decreased by the corporation presumably without congressional review. As one illustration of the unusual degree of flexibility contained in the bill, free insurance could be granted for the 90-percent level of protection which would produce Federal cost in excess of \$9 billion annually.

Also the bill allows protection to be extended to livestock and poultry. The addition of livestock could almost double protection under the program and presumably almost double the cost of the program.

COMPARISON WITH USDA COST ESTIMATE

Due to the large discrepancy in the estimated cost, FCIC invited our committee to confer with their staff to review costing assumptions. We would like to commend the staff of FCIC for their openness and willingness to discuss the issues. There are four principal areas of disagreement which are discussed below.

One, both costing methods began with an estimate of potential protection. The committee's estimate of total potential protection is \$55 billion which is about 25 percent higher than FCIC's current estimate of \$44 billion. This would be the theoretical maximum liability at 100-percent participation, insured at 100 percent of the cost of production. Potential protection was then reduced to 68 percent participation level and adjusted for the 50 percent, 70 percent, and 90 percent levels of protection to obtain total insurance liability. Obviously, if potential protection is understated, total premium and thus Federal subsidy will be understated by a like percent.

Two, the committee assumed the inclusion of high-risk areas in the proposed program would increase losses per \$100 of liability by 20 percent. FCIC assumed a 10-percent increase. FCIC is conducting further research on the effect of high-risk areas through a sampling plan.

Three, under the proposed program, rates would be reduced to eliminate the current 10-percent reserve for unforeseen losses. The com-

mittee feels this reserve must be retained if the premium over the long term is to be adequate to pay losses.

Four, USDA's estimated expense ratio is 13.9 percent of total premium compared to the committee's estimate of 26.1 percent as shown below.

There is a chart in my testimony which indicates the FCIC estimated expense ratios and projected expenses.

To summarize, the actuarial committee estimates the average annual cost of the farm production protection program to be \$1.220 billion assuming rates are adequate. The major actuarial concerns and conclusions of the committee are:

One: The administration has seriously underestimated total potential protection, the effect of high-risk areas, and expense cost of the program. In addition, the reserve for unforeseen losses is actuarially sound and should be retained.

Two: If adjustments were made for the four factors discussed above to USDA's current estimate of \$632 million, little difference would remain between the USDA results and the actuarial committee results.

Three: If rates and guarantee levels are not set properly, Federal cost would be even higher than the \$1.22 billion estimate. In addition, the committee questions the insurability of the 90-percent level of protection which could lead to serious rate adequacy problems.

Four: Expansion of the program to livestock and poultry as well as increases in the subsidy level would be at the discretion of the corporation, and could have a tremendous effect on Federal cost.

Five: If a sound insurance operation is desired and accountability is to be maintained, a separate insurance entity should be retained.

I would conclude by saying that our committee stands ready to (1) meet with anyone interested in reviewing our costing assumptions in more detail or (2) to revise our costing if the proposed program is modified. I would be happy to answer any questions you may have regarding the proposed program or our costing assumptions.

Senator HUDDLESTON. Thank you, Mr. Bill.

I am pleased to welcome Fred Benson.

Fred has been working with the committee staff for the last 2 years on crop insurance, and we think he is one of the most knowledgeable people in the country regarding crop insurance.

Mr. Benson, do you have a statement?

Mr. BENSON. No; I don't.

I came to answer questions, if I could, and questions the Senators might have.

Senator HUDDLESTON. How soon could private industry begin offering all risk crop insurance if the 20-county limitation for Federal reinsurance is dropped?

Mr. BENSON. If the 20-county limitation was removed and rescinded and facilities between the Government and private industry was acceptable and subsidy was equal to both people, I would think they would be geared up to that in 1 year or 2 years, Senator.

Senator HUDDLESTON. What would be your position if the crop/hail portions were taken out?

Mr. MORRISSEY. Our position, as far as is stated within the testimony, is that this is what we have asked for and we would continue to feel that is a right that private industry does have.

Maybe Mr. Benson would like to comment a little more.

Mr. BENSON. I would think that would be the way to establish an atmosphere of cooperation between the industry agents, companies, what have you, because you remove the competitive factors of the coverage.

It is conceivable to me you might well reach a tolerable level as a substitute for your disaster program which is certainly the key to the problem here.

If you can devise that program to be a companion of the hail business, then you would get cooperation of your independent agents.

Senator HUDDLESTON. You indicate it is impractical and, you feel, unfair to expect private agents to participate in the selling of an all-Government program.

Mr. MORRISSEY. I feel it is unfair, No. 1, as we stated in our testimony, it is unfair on the basis that we don't own the business and what happens to me if the Federal Crop Insurance Corporation is dissolved, as they were talking about it today, where does that leave me, the independent agent, to market that business?

There is no ownership.

I own my renewals with the ABC company, and they decide to go out of business; I can go to XYZ company. I have a value to sell.

Senator HUDDLESTON. You recommend the Federal subsidy enjoyed by customers in FCIC be extended to customers of private companies.

How would you suggest this be accomplished?

Mr. MORRISSEY. We have formulated some ideas and positions on this thing that we would be happy to submit to your committee, that the ad hoc association has been working on.

There are three different proposals today as to how this could be done.

Senator HUDDLESTON. I would be glad to receive those. Do you feel that Federal reinsurance of private crop insurance would cost more or less than a subsidized Federal insurance program?

Mr. BILL. I would like to address that question.

One study that the actuarial committee did was an expense issue. I think this has been brought up many times. We analyze the expense of FCIC and the expense of private companies and we found, other than commissions, expenses are very, very close.

In fact, the private industry expenses were slightly below the FCIC expenses other than commissions.

There is no reason to believe, in my mind, that if the reinsurance, if there would be any difference between the commission rates, between private insurance and FCIC, other than commission, I think expenses are very close and, therefore, I don't see too much difference.

Senator HUDDLESTON. Do you think the projected 68 percent participation is realistic under the Government program?

Mr. MORRISSEY. I do not feel that it is realistic.

I am sure you could pick out certain counties in this Nation where it would be realistic.

I don't know if nationwide it is realistic.

Mr. BILL. I feel 68 percent participation in it can be obtained, certainly if you are going to have many private agents selling.

There will have to be a large degree of participation.

Senator HUDDLESTON. Senator Cochran?

Senator COCHRAN. I am interested in knowing whether the reason for the Government subsidy of the premium is to encourage participation by making the cost to the individual farmer lower, or is it for the purpose of helping subsidize the expense of possible losses?

Mr. MORRISSEY. Probably both, Senator.

You would have from the participation angle, I could see this, I think again, it is allowing us to treat everybody the same, you might say, to the degree that we can compete on the same basis.

Because of the difference in the subsidies, we would not as a private enterprise today, but I am sure it would have an effect on the participation if it were subsidized to that extent.

Senator COCHRAN. Under the suggested plan of reinsurance by the Government, is this item for excess coverage by the Government, where the private company would have 100 percent of the risk up to a certain dollar amount, and if the loss happened to exceed that dollar amount of exposure the Government would come in and pay the full amount of the loss?

Mr. BILL. I believe that is correct.

Mr. MORRISSEY. Yes, you would have it at the level on that basis.

Mr. BENSON. It would be catastrophe coverage with the theory over the long pull a reinsurance rate would reimburse the Government, so you have an even keel outside of any subsidy that might be involved.

Senator COCHRAN. You mentioned the reinsurance rate. Is this a rate that would be paid to the Government by the private insurance companies which have the primary risk?

Mr. BENSON. That is right.

It is a spread loss proposition over a period of time.

Senator COCHRAN. Under the terms of the coverage encompassed by the administration bill, are there crops included in there other than the livestock that you mentioned, harvested crops, that should not be included, in your judgment?

If you were writing the bill and you were going to list the crops that should be covered under this program, what would you include?

Mr. MORRISSEY. Like cotton, or wheat, we have no objection on that.

Mr. BENSON. Basically we feel that the Government shouldn't do what the private sector can do.

When you talk about insuring all of the crops, if you examine the Federal crop insurance records, when you get in the money for crops, it is very difficult to rate them accurately.

Administrative expense becomes extensive to the risk. The major expense, major crops, yes.

On the tung nuts coverage, we got down to four crops.

That is a problem I see for any Government program that tries to be all-encompassing.

Senator COCHRAN. When you write insurance on a growing crop, I presume one of the factors that goes in the actuarial computation is the yield that is expected.

If you have a good crop, how do you determine what the yield is?

For instance, what should be, or is expected to be the yield from a field of soybeans?

Mr. BENSON. You mean presently?

Senator COCHRAN. Right.

Mr. BENSON. Presently it is done on somewhat of an area basis.

Now, I understand, they are refining it so that the individual farm records become effective up and down, and I don't know they have incorporated it in the program.

FCIC program, that automatically does that, but in cotton you have a record of your production but the ASCS records are not adequate because if you had a crop failure they do not count the year.

Senator COCHRAN. I know we have proven yields for cotton and rice, but there are no procedures that I know of to prove yields for soybeans.

Mr. BENSON. Individual marketing records is all you have.

Senator COCHRAN. You would do this actuarially, farm by farm, or county by county.

Mr. BENSON. I don't know by county.

The yield is the individual farm right.

Senator COCHRAN. If the Government were to do this without the benefit of private industry, how many employees would it take, if you can estimate, to operate a program of strictly Federal crop insurance?

Mr. BENSON. If you want to get down to an individual rating of an individual farm, the complexities of that are tremendous, in this country, because of its size.

Then, you get into changing management. This farmer out here operates 3,000 acres this year, next year he operates only 1,000, and somebody else takes over the other 2,000.

That can be even with the benefit of your computers a tremendous task.

Senator COCHRAN. Are you working with the Crop Insurance Council now?

Mr. MORRISSEY. Yes.

Senator COCHRAN. Those are the only questions I have, Mr. Chairman.

Senator HUDDLESTON. Thank you, Senator Cochran.

Do you think ASCS involvement should be in the selling and servicing of the insurance program or in administering such a program?

Mr. BENSON. I question the philosophy of the ASCS organization being adaptable to the philosophy of insurance.

Up until this time the philosophy of ASCS has been to administer programs and pass out money, and, gentlemen, I can say the attitude has been to pass out as much money as possible.

When you run an insurance program, you can't operate that way.

Senator HUDDLESTON. The background of the ASCS to this point hasn't given them the experience needed for a selling program?

Mr. BENSON. I don't think so. Based on a supplemental program.

When they ask the county committeeman to participate in a level of coverage, I can see reaction to the people and their immediate area because everybody knows everybody.

So, I question the advisability of that local control over the factors.

Senator HUDDLESTON. Thank you very much, gentlemen.

Senator Stone had to step out for just a few minutes and will return. So, I am going to skip Dr. Griffiths, from Florida, at this point until Senator Stone returns.

The next witness will be Charles Finson, president, National Bank of Monticello, and chairman of the Agricultural Bankers Division of the American Bankers Association.

STATEMENT OF CHARLES N. FINSON, PRESIDENT, NATIONAL BANK OF MONTICELLO, MONTICELLO, ILL., AND CHAIRMAN, AGRICULTURAL BANKERS DIVISION, AMERICAN BANKERS ASSOCIATION

Mr. FINSON. Thank you.

I am Charles N. Finson, president, National Bank of Monticello, Ill., and I am representing the Agriculture Bankers Division of the American Bankers Association.

Senator HUDDLESTON. I am glad to see you pronounce Monticello like we do in Kentucky.

Mr. FINSON. We have our own distinctive way of doing this, of course.

I have submitted a written copy of our testimony, and in the interest of time I will paraphrase it.¹

Senator HUDDLESTON. We will accept your full statement for the record.

Mr. FINSON. I would like to comment briefly on some of the main points in our written testimony.

I am president of the National Bank of Monticello, and this is a bank with \$35 million in assets in a predominantly agricultural community of 5,000 people.

The American Bankers Association's membership consists of approximately 92 percent of the Nation's more than 14,000 full-service banks.

Banks are interested in agriculture, so much so that they hold over \$33 billion of farm debts. Two-thirds of the Nation's full-service banks are in communities of less than 25,000. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, about 60 percent of these community banks listed agriculture as the single most important source of income for their communities.

As bankers, we feel that it is in the national interest to strive for a more stabilized agricultural output. Broad participation by producers in a crop insurance program is one important means of minimizing those risks which are beyond the control of every farmer. As bankers, we appreciate the importance of insurance to preserving capital resources. Today, the family-sized farm requires large capital investment and substantial amounts annually for expenses, much of which is borrowed money. Crop insurance improves the farmer's credit position because he can offer it as initial security and use it to pay off his loan if the crop fails.

I would certainly like to compliment this committee for the wide range of plans you are looking at and your broad study of this most important problem.

We believe the present disaster crop insurance programs, which have evolved over time, are inequitable and inadequate. We believe the following principles should be paramount in establishing public policy for an expanded crop insurance program:

It should provide for a program that will include broad crop and area coverage.

¹ See p. 150 for the prepared statement of Mr. Finson.

The program should provide for the maximum use of the private sector—insurance companies and agents—as long as it is cost effective.

The program should allow for voluntary participation by farmers.

The program should allow premiums to be set on a sound actuarial basis and cover costs of administration.

The program should minimize the Government's role with major focus on achieving an effective transition from present multiple disaster offerings to one unified program, and to cover catastrophic losses.

The program should allow for insuring of different levels of loss, including out-of-pocket and machinery costs, but not to cover a return on land and management or in any way to guarantee a set income so that incentive to produce efficiently might be removed.

The program should determine premium rates and indemnity levels based on individual farm yields and cost experiences, to the extent it is practical to do so.

Now, I would like to expand briefly on ABA's views:

We think the crop insurance program should have a broader geographic coverage, and should be expanded to cover most growing crops. To the extent that coverage can be offered by the private sector, Government should permit them to do it. We should include hail, fire, and lightning coverage because this will allow the introduction of a complete package. However, we feel that if the program is not marketed through the private insurance industry, then perhaps hail, fire, and lightning coverage should be excluded from the level of coverage; since consistent and widespread participation is essential for the crop insurance program to have any significant stabilizing effect on the Nation's agricultural economy in the event of widespread crop failure.

An insurance plan offering individual farm rates and guarantees would be more equitable because both the production guarantee and the premium could be derived from the insured's actual yield and cost history, and which such a plan would be more equitable, producer participation should increase. Such a plan should have a favorable effect on the program's financial soundness.

We feel that the level of coverage should not exceed the cost of production.

We feel that the disaster assistance programs should be consolidated into a crop insurance program. The lack of uniform natural disaster assistance has produced a series of programs, and we support merging the present disaster payment and Federal crop insurance programs into a unified crop insurance plan. We do recommend, however, against including the emergency credit programs of the FmHA and SBA at this time. There is a distinction between disaster payments and credit programs. The FmHA and SBA credit plans should be continued until a new crop insurance plan can get broad enough acceptance to take over this function, and fulfill this need.

Regarding the participation of the private insurance industry, there are more than 200 privately owned insurance companies that are competing vigorously to satisfy certain crop insurance needs of American farmers. The association recommends that private industry be used to the fullest possible extent in underwriting, marketing, and claim settlements for such insurance. We especially endorse the idea of making immediate maximum use of the private insurance sector in

marketing since an extensive local private agency network is already in existence. Their experience in sales and in claims administration would certainly provide an invaluable asset when used cooperatively with Government agencies. The private insurance industry's use and involvement in the program should eliminate the need for growth in the personnel requirements of the Federal agencies involved. We suggest that the Government continue discussions with the private insurance industry to design a program whereby the private sector could offer a major portion of Federal crop insurance.

Although the association supports the concept of a privately funded comprehensive insurance program, we do not believe the insurance industry is presently prepared to do so. Therefore, we feel that the Government should assume a principal role in providing an all-risk program with a long-term objective of reverting to a reinsurance role once the private sector has developed their workable plan. We also feel it is appropriate and necessary for the Government to reduce premiums using funds now employed through FCIC and the disaster assistance programs to make the insurance cost effective. This anticipates that no additional Government outlays be required, and hopefully, over time, total Government expenditures will be reduced. We support this approach as we believe it is in keeping with efforts to restrain Government expenditures and thereby help stem inflation.

In conclusion, as active participants in the rural economy, we offer our continued support and cooperation. We support the development of a broad crop insurance plan, which will help reduce risk and stabilize the agricultural economy. We suggest that every effort then be made to accomplish this by folding the appropriate existing disaster assistance programs into a new insurance plan and maximizing the use of the private sector.

Mr. Chairman, we are very grateful for the opportunity to present our views and we will be pleased to offer any help in an ongoing way that we can.

Senator HUDDLESTON. Thank you very much.

You mentioned there were some inequities in the present plan as it is working.

Do you find the farmers you deal with are satisfied with the existent Federal crop insurance program?

Mr. FINSON. In the area of Illinois I am familiar with, Mr. Chairman, most of the farmers are not participating in the crop insurance program.

They are purchasing hail insurance and fire insurance, but not participating, to any great degree, in the crop insurance program.

Senator HUDDLESTON. I know farmers are borrowing more and more. I suppose today they have bigger and bigger expenses in operating the farm.

Do you require those who have a very heavy debt limit to purchase crop insurance?

Mr. FINSON. We have not specifically had that notion, no sir. We do recognize that in the event of crop failure, and a farmer has to pay the cost of his operating borrowing, we then have to look at his general capital structure to protect against that risk. The presence of a broader insurance program would help take care of that risk, and probably enable lending to be made to a greater degree.

Senator HUDDLESTON. Do you have any recommendations as to possible changes in the present disaster loan program?

Mr. FINSON. We would like to see it merged into a crop insurance program so that funds previously allocated for disaster purposes be used to support a broader crop insurance program.

Senator HUDDLESTON. To reduce the cost.

Mr. FINSON. Yes.

Senator HUDDLESTON. Senator Cochran?

Senator COCHRAN. In connection with the question you asked, Mr. Chairman, about requiring crop insurance before you make a loan, I was wondering whether if we did institute a program like this, that lenders would have a great deal to do with participation in getting the insurance, by encouraging, not necessarily demanding, but encouraging it in certain situations.

I imagine that would be something that probably would become prevalent among lenders, would you not think so?

Mr. FINSON. I think this is true. However, I think the position of lenders would vary in the individual case.

Senator HUDDLESTON. We go now to Kalem Barserian, general manager, Raisin Bargaining Association, of Fresno, Calif.

Would you identify yourself for the record?

STATEMENT OF KALEM H. BARSERIAN, GENERAL MANAGER, RAISIN BARGAINING ASSOCIATION, FRESNO, CALIF., ACCOMPANIED BY JOHN D. PAKCHOIAN, PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS

Mr. BARSERIAN. My name is Kalem H. Barserian. I am from Fresno, Calif. I am the general manager and chief executive officer of the Raisin Bargaining Association, a farmer cooperative of 2,000 members producing grapes.

I would like also to introduce John D. Pakchoian, who is here with me today. Mr. Pakchoian is the president and chairman of the board of directors of the Raisin Bargaining Association. He is also a grower of grapes, cotton, almonds, and plums in the central valley of California.

I am also a grower.

It is with pleasure that we appear before you today to support in principle the Farm Production Protection Act. It is our purpose to present to you the background of our raisin industry and at the same time illustrate the urgent need of the Farm Production Protection Act not only to the raisin industry but to all of American agriculture.

The California raisin industry normally produces 220,000 tons of raisins. Approximately one-third of this production is sold into the export market, helping somewhat with our trade deficit. The most crucial point in time in the production of raisins occurs in the early weeks of September. The grapes are picked from the vines in the first 2 weeks of September and laid on 2- by 3-foot sheets of kraft paper to dry. The process of drying grapes into raisins takes a period of 2 to 2½ weeks to complete. If rain occurs early in the first 2 weeks of September, while the raisins are still in the grape form, the loss is naturally more substantial than when they are in a dried form later in the 2-week period.

Since 1961, the California raisin industry has been protected from rain disaster by a Federal crop insurance program. The program has basically paid its own way through a realistic premium rate and a well-run FCIC. From 1961 through 1975, the premium dollars collected exceeded the indemnity dollars by \$2.7 million. On September 9, 1976, a tropical storm damaged approximately 55 percent of our entire production and again on September 4, 1978, 60 percent of the crop was lost to another tropical storm. With these two disasters in the past 3 years, the FCIC has paid out \$1.68 for every \$1 collected in grower premiums plus computed interest at 6 percent over an 18-year period. For many years prior to this, our program had the best risk factor of all the programs.

In the past 70 years of the California raisin industry, there have only been four major disasters with three occurring in the past 7 years. Without our Federal crop insurance program for rain disaster, many growers would have been forced out of business. Today, the raisin industry has developed new equipment for separating the substandard raisins from the standard grade raisins and we have developed a poly-coated tray to prevent the ground moisture that occurs after a rain from destroying the fruit. If we had had the new equipment and new trays early in the 1978 season, we have estimated that our losses would have been cut in half. These two tropical storms have caused the raisin industry a loss of some \$125 million.

Both in 1976 and 1978, the raisin belt was declared a disaster area and the Farmer's Home Administration made available loans at preferential rates to the victims of the rains. However, because eligibility requirements were based on a financial means test which allowed only for growers who could not obtain credit from any other source, only a handful of the 4,500 raisin growers were able to qualify for the FmHA loans. These were marginal producers and the poorest credit risks.

We believe that disaster assistance programs should be coordinated together. The present disaster programs do not provide a very dependable package of insurance resources to the producer.

We speak from experience. It is necessary to provide a voluntary insurance program that offers the producer a choice in seeking a level of coverage consistent with his assessment of his own risk exposure and financial situation. The producer would then know what his crop disaster coverage will be. You will then provide the American farmer with a useful tool for managing the financial risk stemming from natural disasters. This has been experienced in the raisin industry during these past 18 years with the FCIC.

Naturally all risks cannot be eliminated. However, it does provide the producer with a means of managing that risk by spreading the risk out among many insuring producers.

We have reviewed the testimony by Secretary Bergland and others from the USDA and support their principles of consolidating all the existing duplicate programs. We support the position that the Federal subsidy should be used mainly to share premiums for the lower level of protection with the producers paying most of the premiums for higher levels of protection. The producers should have a choice of the protection levels desired. In order to make the program work, it must be affordable for most producers and thereby encourage a high level of

participation. Also, the insurance program should be expanded to other crops as soon as possible. For example, the California grape industry produces approximately 3 to 4 million tons of grapes annually and we have no type of coverage against the perils of natural disasters.

We should also mention our experience with private crop insurance. In the raisin industry, there has been private coverage available to the growers for a number of years. The competition has improved the general coverage at a much greater pace than would have occurred had there only been the Federal program. We agree that this legislation should not create any obstacles to the marketing potential of the private insurance industry.

The present draft of the legislation calls for the transfer of assets of the FCIC at such times as the Secretary shall direct. We believe this section to be vague. We are not sure how this will work in respect to the operating function of administering this act, since the sole power would go to the Secretary.

In regards to the actual operations of the program under this legislation, we are not concerned with what name it is given as long as we have a continuing voluntary program for agricultural producers. The controlling agency should have the sole objective of establishing and administering the crop insurance program. By changing the present administration which exists under the FCIC, we question whether or not this same expertise could be maintained if it were under the administration of a department of the USDA, which has many varied duties and responsibilities.

Voluntary crop insurance programs should be administered by a board of directors that understands the problems of American agriculture and the risks that it involves.

Mr. Chairman, this concludes our prepared statement. We thank you for the opportunity to present our views and welcome any questions that the committee may have in regards to our remarks.

Senator HUDDLESTON. Thank you, Mr. Barsarian.

Are raisins the only specialty crop grown in central California that are now covered by Federal crop insurance?

Mr. BARSERIAN. Yes.

Senator HUDDLESTON. Do you believe that growers of other crops would be interested in that coverage?

Mr. BARSERIAN. Absolutely.

We produce 258 different crops in Fresno County of California, which is the No. 1 agricultural county in the United States.

Senator HUDDLESTON. For those producers and all those crops, what is the most important change in Federal disaster assistance programs that you can think of at this time?

Mr. BARSERIAN. Right now we have been working with the crop insurance people and we are making some changes, working with the University of California Extension Service, based on the cost of production and getting the level of coverage up.

Again, it is a total disaster package where the unit is insured for a number of dollars, based on the amount of tonnage produced off that unit.

For example, raisins normally produce 2 tons an acre.

We have used trays in the Sun in the area for the past 3 or 4 years. So, we have basically a pretty sound program right now.

Senator HUDDLESTON. You dry those grapes. Do you let all that juice evaporate?

Mr. BARSERIAN. The moisture of the grape is about 70 percent. It stays in the grape. The skin doesn't break.

We have a very good byproduct. We don't market them as raisins. We take them straight in the winery and we make a good California wine from it.

Senator HUDDLESTON. We are well aware of that.

Do you think the private crop insurance cost would be able to stay competitive in the raisin area if Federal premium payments were subsidized?

Mr. BARSERIAN. It would be pretty tough.

We don't believe it should be subsidized to that degree. We feel they should stand on their own as much as possible.

We don't believe the disaster programs that we have seen are for our industry. I can't speak for all other agricultural industries. What we have seen in our industry, when our areas have been declared disaster areas, like we had a frost in 1972.

As a matter of fact, at this time of the year, as soon as the vines were starting to come out, and we lost a substantial portion of the crop. There was no coverage.

Even though the area was declared a disaster area, very few growers were able to meet the test. Over the years they have been able to provide insurance to protect against rain. They were able to borrow money from private lending institutions and very few were able to qualify.

Senator HUDDLESTON. Does the insurance cover from the growing period through processing?

Mr. BARSERIAN. Just the growing period, from the time the grapes are picked off the vines and placed on trays and laid out to dry.

Senator HUDDLESTON. You do have coverage?

Mr. BARSERIAN. It is strictly a rain disaster program to cover that 2- to 3-week period.

Senator HUDDLESTON. Senator Stone?

Senator COCHRAN?

Senator COCHRAN. I have no questions.

Senator HUDDLESTON. Senator McGovern, we are glad to have you join us.

Senator MCGOVERN. I have no questions.

Senator HUDDLESTON. Thank you.

The next witness will be Dr. James Griffiths, special projects director, Florida Citrus Mutual, Lakeland, Fla.

Dr. GRIFFITHS. Thank you, Mr. Chairman.

Senator HUDDLESTON. I believe Senator Stone has some comments to make.

Senator STONE. I will try to wait until he gets through with his testimony.

Senator HUDDLESTON. You may proceed.

**STATEMENT OF DR. JAMES GRIFFITHS, SPECIAL PROJECTS
DIRECTOR, FLORIDA CITRUS MUTUAL, LAKELAND, FLA.**

Dr. GRIFFITHS. Mr. Chairman, if I might accept your kind offer to put my testimony in the record.¹

Senator HUDDLESTON. Without objection, the total testimony will go into the record.

Dr. GRIFFITHS. If I may deviate and offer some additional thoughts that are stimulated by riding in the airplane and thinking of testifying before the committee here.

Let me say for the purpose of the people in the hearing, I am director of special projects at Florida Citrus Mutual, and I think we represent most of the growers of citrus in Florida.

I am a grove owner and I do carry crop insurance.

Let me just comment on a few items that we feel in general should be included, before I get down to specifics.

We don't see any reason to reorganize the Department of Agriculture someway to put crop insurance somewhere else.

I don't ever see reorganization as doing anything but creating more bureaucracy and more administratives, and no increased efficiency, either, in State or Federal governments.

I think we would be very agreeable that crop insurance should cover all producers wherever they may be as long as it can be done on some kind of a sound basis.

We feel that subsidization by the Government is very proper. Let me dwell on that just a little bit.

We have to have food fiber to be a viable, civilized country. Today I think historically there is no question that Government has deemed it proper to subsidize agriculture, to maintain it in a viable condition. I think this is a very legitimate and proper expenditure and within this range it seems to us that including Government to the extent of catastrophic loss and to the extent that it covers some administrative, operational, and expansion costs of the program is very justified.

I want to offer a suggestion because I think the thing we are concerned with, and you don't have it, nobody has had it up to now, is tree loss. Tree loss is the thing we are afraid of; not if we plant it in the wrong place and it is going to freeze.

We have it in the ground and then we have it, a catastrophic freeze, we don't lose just this year's crop, but we lose next year's and sometimes the following year.

Probably this year's crop is worth more money as a result of the freeze.

I might say parenthetically you might consider insuring against overproduction as you do underproduction.

We are almost looking at insurance of my income that is going to cover our cost of production regardless of the crop size.

I say that somewhat facetiously but somewhat seriously because that becomes a part of it. We don't know why we get a big crop. You benefit from the low prices, and we don't in the marketplace set the price. I think that is true for most any agricultural commodity. It is the weather, and we have so many trees in the ground. We don't push them out.

¹ See p. 153 for the prepared statement of Dr. Griffiths.

The sunset provision noted in one of the bills, I think that is something I can speak of, and I say that is a good idea, provided when sunset comes up, we seriously look at the problem.

We have this going on in Florida with some regulatory agencies and I can commend our House of Representatives because they are very carefully looking at one, but in the Senate it is kind of a rubberstamp. The House has the tough ones, including the doctors.

I don't know what is going to happen, but it can work; just a little structuring, a board and an executive director.

I think our experience suggests a committee or commission or board, or whatever it may be, can be appointed by someone like the Secretary of Agriculture and serve not at his discretion, but rather on a staggered term basis, so in a change from one administration to another there is not suddenly a change when a new administration comes in, and the executive director be responsible not to the Secretary but to the board.

This is the way business operates and the Government can put that concept into being, and governmental operations, and we think it would be helpful.

Let me talk just a moment or two—I deal primarily with oranges but this applies to grapefruit or tangerines.

We have probably as many figures about our industry as any industry in the country. We have some 750,000 acres in one State. We have some competition from California and Texas, and what I say, to some extent, I think applies to them as well.

We know, based on history, and you can very easily have documented figures of what it costs us to grow an acre of oranges and we know historically what we have been able to get for them.

On the average it takes 225 boxes of oranges to cover any production cost this year and this is something that is being updated annually so we know what next year's figures are going to be and those boxes at that average price will be what I need.

You can use this as a basis and we are not looking at the way we do it today, because today I insure crops of oranges and if I have enough loss I am paid.

No matter what I get for the oranges I get paid and basically premiums are not very attractive to the average citrus grower and fresh fruits have been very attractive and we participate I think, pretty well.

If you can have a situation that that is the amount we have to produce and looking at our historical record, if we can't show we produce that much, we can't buy insurance.

The grove is not good enough, it is too young, and let's put it out of production, and let me take my own risk.

Once the Government insures me, to some extent you can if I am willing to pay a premium which will be based on everything in the State, the chances of that loss are pretty minimal.

The premium should be low and coverage should be broad, provided only if the Government steps in if there is a tree loss, if there is a freeze that is sufficiently disastrous, or in the event of a hurricane, or we do occasionally have some tornadoes and you catch one piece of a fruit grove and it will tear the trees out of the grove and that tree loss would be covered and that, in effect, is something we can't pre-

dict, and we can say we can insure groves and vary the premium, depending on whether that grove was damaged in the freeze or not.

We can buy protection, to some extent, by putting out fire pots and setting up wind machines. If we do that it ought to lower our premium.

Historically, we know where they are and we know what they will do.

Turning this insurance program around, I think that there is a way to do this. I think I have been overcompensated for my losses on fruit over the past 15 years, where I have been covered because they were fresh fruit variety. If they didn't go fresh, they covered my loss of income.

Instead of \$600, maybe I only got \$300, and I didn't need to be compensated.

If I had a lower premium and wasn't compensated, I think it would be a fair program and a more honest program.

What I am saying to you is there is a way to increase the flexibility to cover tree loss as an expense of government.

We would like to be offered that flexibility.

I don't see it in any of the bills. It may be it is there. I would be happy to try to write a paragraph.

I do thank you for the opportunity to appear.

We would like to see the program continued and expanded.

Do you have questions?

Senator HUDDLESTON. Senator Stone, do you want to elaborate?

Senator STONE. Thank you, Mr. Chairman.

I have several questions that are specific and one or two that were raised by your oral testimony here today.

Dr. GRIFFITHS, what percentage of citrus acreage is covered by Federal crop insurance now?

Dr. GRIFFITHS. Senator, I can't tell exactly.

I know we have some counties that are not covered. The bulk are. We had a horrible struggle and I think you were part of that, trying to increase coverage in some counties that were more subject to hurricane damage than freeze.

Why they weren't authorized to go—

Senator STONE. What do you think the most important single factor is that will limit participation?

Dr. GRIFFITHS. I think the cost of the premium and the fact that the trees are not covered. You are insuring against crop loss only.

Senator STONE. Not tree loss.

Dr. GRIFFITHS. That is our problem.

Senator STONE. You indicated in your prepared testimony, that private industry should be encouraged to cover crop insurance and private insurance should be a deductible and comprehensive part of the Federal program.

How would the Federal and private programs work together?

Dr. GRIFFITHS. I believe you give me my thinking, and I mean no offense, because it is an area where I don't have the experience.

There are no private companies doing what I am talking about in there.

Where private industry is willing to come in, in our experience and I think history's experience, anytime you can let the free market determine what we are going to do it is far more efficient, we think,

and we should encourage private industry and private insurers to come and insure those losses.

They can put it on a sound actuarial basis. If this is a minimal loss, that first occurs, that you are going to first pay for, I can see that this is a potential as a deductible portion.

But I am saying, if you followed a program something along the line I discussed, that would pay very seldom because very rarely will you have a sufficient loss to justify that.

In other words, if there was a catastrophe, then the Government comes to private enterprise that might be protecting me against production losses, only if that actually gets that low and Government would then pick up the tab later.

Senator STONE. Pick up a tab on what?

Dr. GRIFFITHS. Only if we had serious loss and actual tree loss.

Senator STONE. Do you think there is sufficient justification for transferring the present crop insurance program into the commodity credit corporation and placing it under the jurisdiction of ASCS?

Dr. GRIFFITHS. No, sir, I don't. We don't have experience with commodity credit.

Regarding ASCS, as far as insuring Florida citrus, that is a program as soon as you want to do away with it the more money we will save.

They don't do anything except pay us to do things we do anyway. It doesn't make any sense.

If you will take that money and subsidize your trees, that will get frozen—

Senator STONE. Or buckled by the wind.

What about the cost of reinsurance provided by the Federal Government as opposed to original insurance?

Dr. GRIFFITHS. Well, as I see reinsurance, and I am assuming this means the company, in effect, has said, "We have covered this loss, we have losses over and above so many millions of dollars, somebody is going to have to step in."

I can see Government filling that role if there is a catastrophic loss to an individual carrier, particularly private insurance. He has someplace to keep him from having the same catastrophic loss.

Senator STONE. What about the idea of providing an incentive to expand both the crop to be insured or the risk to be covered by private industry on the basis of some subsidized reinsurance. Then when the private carrier does not expand coverage, either to a crop or to a risk not now being taken care of, and in that case the Government would expand the Federal crop insurance but in the case where the private carriers would do this, then offer the reinsurance on the condition of a lowering of the rates.

In other words, let the private carriers do it if they will do it and provide the subsidies on the wholesale level, except where they won't or can't do it, because they can't get actuarial figures or the group is too small, or whatever it is, to get us out of private industry as much as possible?

What about that approach?

Dr. GRIFFITHS. I think you are saying essentially what I am trying to say.

I thought to the extent that can be done, it is highly desirable.

I don't think we can say categorically in Florida that private insurance has ever shown any interest in insuring a citrus crop.

It is a pretty hazardous crop to be growing a lot of the time but it seems to me if they were encouraged with some sort of a program; you can't do it overnight.

Senator STONE. No.

Dr. GRIFFITHS. It seems to me that it is a proper role for a Government function.

It might aid in encouraging people to do something.

If you can encourage industry to come and insure us and by saying to us farmers that we are going to cover your tree loss but you are only going to be able to participate in this kind of insurance or this kind of laws if you have been a member of this program.

The longer you have been a member, the greater your coverage. Then, you begin to stimulate people who want to participate in private insurance and if 10 percent try, then come in, from then on there will be interest.

Senator STONE. Will you write a paragraph that you were talking about on tree loss?

Dr. GRIFFITHS. Yes.

Senator STONE. That paragraph ought to appear in anything we pass out of the committee, if we pass anything.

Dr. GRIFFITHS. Let me compare States and situations.

In 1962 in Florida we had the first cold night of 2 nights. We had frozen groves on top of the hill. We cut 2 inches of wood and bigger. That had never been hurt before.

Some people I talked to had big losses.

Usually the cold hits the low ground on a cold calm night. We can predict what happens.

This is more or less true. Texas doesn't have any hills. It doesn't make any difference even then.

But anybody can be hurt in a catastrophe. In Florida it is more the amount of tree loss.

In Texas it is more the amount of crops lost.

In California they have total crop losses where they won't pick the first box of oranges from some of those groves. Yet, their trees look pretty good. They will still produce a good crop next year.

I have seen some bad looking groves in California, but nothing commensurate with the damage that Texas and Florida have taken on occasion.

Again, if you can get that tree loss and a crop loss, we can live with minimal loss for 1 year.

Senator STONE. You mean a minimum recovery.

Dr. GRIFFITHS. As long as we have no wood injury, we have no problem.

If we have wood injury, then next year's crop is gone.

Senator HUDDLESTON. Thank you.

Senator McGovern?

Senator MCGOVERN. When you say in a freeze you sometimes not only lose that year's crop but maybe the next two or three, I presume that is because of the damage to the tree itself.

Dr. GRIFFITHS. Yes, sir, wood damage, the colder it is the larger the limb that can be hurt.

I think as an example in the 1962 and 1957 freezes we cut a lot of groves, up to 4 inches of wood. I personally supervised that.

The 1977 freeze was the worst freeze in Florida's history. It put orange prices where they are today, and we are delighted with the prices.

We had dormant trees when the cold hit and we lost a substantial proportion of that year's crop.

Senator MCGOVERN. I think you are one of the first witnesses I have heard who thought you were overcompensated in insurance; that caught my ear.

Dr. GRIFFITHS. It is true.

Senator STONE. It makes Florida a very hard State to represent.

Dr. GRIFFITHS. I still want something else that you are not giving me.

Senator MCGOVERN. In your prepared statement you recommended if we go to a comprehensive crop insurance program, not only eliminating the present disaster programs, relief programs, but you also said we ought to eliminate the subsidized interest portion of the loan program of both the Farmers Home Administration and the SBA.

I haven't had a chance to study all of these bills before us.

Does that second recommendation to eliminate the FmHA program and SBA program that are subsidized; doesn't that go somewhat beyond the legislation proposals?

Dr. GRIFFITHS. I didn't intend for it.

I didn't think I was going to go beyond the extent of those loans that are made to agriculture for loss incurred as a result of natural hazards.

Senator HUDDLESTON. I think the administration's bill would essentially do that.

Senator MCGOVERN. It would?

Dr. GRIFFITHS. I am prejudiced because I didn't know whether I was too rich or too poor. I couldn't qualify.

I didn't know which category I was in. I think that is true of the bulk of us.

I have seen in my experience in Florida, and this is primarily Farmers Home Administration loans; I haven't been able to see those that have been beneficial to many people in terms of what they are doing for the Florida citrus grower.

I can't speak for any other industry.

Senator MCGOVERN. I think it is fair to say sometimes there have been some abuses in those subsidized loan programs.

Dr. GRIFFITHS. I would rather have something in terms of an insurance program in which I have to qualify to be in it, and let that money be spent if I am willing to help myself.

Don't give it to me just because I am there.

Senator HUDDLESTON. Senator Cochran?

Senator COCHRAN. I have no questions.

Senator HUDDLESTON. Thank you very much.

Dr. GRIFFITHS. Thank you, Senator.

Senator HUDDLESTON. Mr. Billy Ray, National Association of Federal Crop Insurance Agents.

Mr. RAY. Thank you, Mr. Chairman, and members of this committee. I represent the National Association of Federal Crop Insurance Agents, and am an FCIC agent from Chappell, Nebr.

I have on my right Mr. Elmo Carlson, who is president of the Deuel County State Bank, and at the closing of my testimony, I would like to ask permission for him to give his testimony.

Senator HUDDLESTON. Without objection.

**STATEMENT OF BILLY G. RAY, NATIONAL ASSOCIATION OF
FEDERAL CROP INSURANCE AGENTS, CHAPPELL, NEBR.**

Mr. RAY. I appreciate this privilege to testify before you in favor of legislation designed to expand the operation of the Federal Crop Insurance Corporation.

To establish credibility to what I am to say, I wish to relate my experience with Federal crop insurance.

One: I started with Federal crop insurance the year the FCIC Act was passed in 1938. I was then employed by AAA of the USDA and was one of two persons assigned the task of establishing the FCIC program for Nebraska.

Two: I purchased a farm in 1948 and have insured the wheat thereon with a Federal crop insurance policy for 30 years.

Three: I own and have operated Ray Insurance Agency since 1946 and, in 1955, acquired a contract with the Federal Crop Insurance Corporation as an FCIC agent to handle sales and services in three Nebraska counties.

We have heard much, recently, about the shortcomings of Federal crop insurance. I would like to say something in its defense. Limitations in the FCIC Act of 1938 have actually prevented the expansion necessary to provide adequate protection to all farmers on all crops. Federal crop insurance has been limited by law to expansion to only three new crops and 150 new counties per year, but an even greater limitation has been the lack of money to fund expansion.

Federal crop insurance, in my opinion, has performed very well, considering the limitations imposed in the FCIC Act. I have held contracts with private insurance companies for 32 years and as I compare their management and operating abilities with that of the Federal Crop Insurance Corporation, I can report to you that FCIC compares very well. In those 40 years of experience, it has produced:

One: Personnel that are dedicated, well-trained, industrious, and experienced.

Two: They have developed a marketing ability that compares favorably to marketing by private hail insurance companies.

Three: Actuarial expertise on all-risk coverage. They have the knowledge and experience and are capable of establishing fair and equitable rates and coverage for all crops in all counties.

Four: They have a good loss-adjusting service that has been satisfactory to the insured.

I thought it might be interesting for your committee to observe the actual operation of FCIC in Deuel County, Nebr. I perform all sales and services as a private agent and I do it on a commission basis. Wheat is the insured crop.

Seventy-four percent of the Deuel County operating farmers, the ones who pay the operating cost, have the protection of Federal crop insurance. Last year, a hailstorm traveled 15 miles across my county totally destroying all wheat in its path. All of the farmers, except for two, had Federal crop insurance.

The insured farmers understand the conditions of their insurance and consider it a part of their normal operation. Persistency is excellent as an average of 97 percent continue from year to year.

Federal crop insurance is appreciated by the farmers of Deuel County as well as the banks and businessmen. It has been a good service for Deuel County.

Of interest is how the Deuel County FCIC operation has treated the Corporation, and in the back of my testimony, you later will find an analysis of the operation in Deuel County.

But briefly, you will find since the beginning of Federal crop insurance in 1939, which was the first year it operated, through 1976, Deuel County farmers have paid premiums \$2,688,410.

They received back in total indemnities \$1,656,421, and there is a premium credit balance with the Federal Crop Insurance Corporation of \$1,031,989.

It is obvious the Federal Crop Insurance Corporation has been treated very well.

It can be said that Federal crop insurance has done a good job in Deuel County, Nebr. It is capable of doing the same in all counties.

I would like to consider some of the questions and problems confronting your committee concerning this legislation:

One: Does Federal insurance conflict or compete detrimentally with private hail insurance?

From my viewpoint, as a farmer, private insurance agent, and FCIC agent, I say it does not. In fact, my opinion is that private hail insurance benefits from Federal crop insurance.

In considering hail insurance, the greatest concern to the farmer is—what if I obligate myself to pay this hail premium, in some cases as high as 23 percent, and later the wheat crop fails because of disease—rust, mosaic, et cetera—or insects, or dry, hot weather; then where does the money come from to pay the hail insurance premiums? The farmer with Federal crop insurance assures himself he will have indemnity proceeds to pay that hail insurance premium and will buy his hail insurance with less concern and hesitancy. I feel that opportunities for private hail insurance is greater where there is a good Federal crop insurance operation.

I think if you were to examine our county, you would find this to be so.

Farmers need private hail insurance. As a farmer, I personally need it, and in fact, in 1978, paid a private hail insurance company \$11,691 in hail premiums.

Two: Should the Federal Crop Insurance Corporation be abolished and its operation assumed by the Commodity Credit Corporation with the ASCS acting as the distributing agency?

I am familiar with farm programs. My first job was with the Agricultural Adjustment Act, the first farm program. For the past 30 years, as a farm owner-operator, I have participated in every farm program that has been available.

I appreciate what farm programs have done for the American farmer, and for me. I appreciate what ASCS is doing for us currently.

But ASCS is not the organization to provide an all-risk insurance plan. The fact that there has been a new and different farm program with practically every change of the Presidency should tell us that we will have too many changes in philosophies, operations, and personnel to provide the continuity necessary in an all-risk insurance plan.

At the beginning of Federal crop insurance, it was distributed through the county AAA committees under the supervision of the committees.

It was not a successful method of operation; in fact, it was very detrimental to the progress of Federal crop insurance. To the extent they discontinued the program for 1944, starting again in 1945, and in 1948, they overhauled it completely. The reason is that it was in the hands of AAA, and they just weren't capable of administering it.

County AAA committeemen were elected to office periodically. The philosophy, attitude, and support of the county committee determined the success or failure of Federal crop insurance. If the county committeemen supported FCIC, it was possible to establish a good program. However, if the county committeemen did not support the program, or opposed the program, it was impossible to establish a crop insurance program.

County ASCS committeemen are currently elected, as they should be. Human nature has not changed. So there is no reason to hope that all county committees would support an all-risk insurance plan.

ASC'S is doing a good job with the programs that they have. It would be a mistake for them to be charged with the responsibility of an all-risk insurance plan.

Three: Should hail insurance coverage be removed from whatever plan is established?

If this is done, my opinion is that, from Montana to Texas to the Missouri River, there will not be enough all-risk insurance written to justify the existence of a program. Farmers would not participate. It would be the destruction of a program greatly needed by the American farmer.

Many farmers walk through my office and express their opinions and I think this attitude would be revealed if the question was asked of them.

Four: How much Government subsidy should there be in the premium costs?

The premiums must be subsidized especially at the beginning of the program to gain satisfactory participation.

Realizing the need to gain participation, so as to adequately provide for disasters, I believe it will be necessary to subsidize the premium cost by 30 percent. This, together with the current subsidy for administration, would result in a total 50-percent subsidy. It will take this to get the necessary participation.

I would like to believe that as the expanded Federal crop insurance plan attains satisfactory participation, we could expect reductions in the Government subsidy. There appears to be a common agreement that the current approach to disaster solutions is unsatisfactory, and that legislation is needed.

The most simple and logical solution is to amend the Federal Crop Insurance Act permitting the Federal Crop Insurance Corporation to cope with the necessary expansion. Some amendments necessary are:

One: Removal of expansion limitations.

Two: Increase the appropriation limitation for administration to provide adequate funds for expansion.

Three: Increase capital stock authorization.

Four: Provide for Government participation in premium costs to an extent of 30 percent of the rate.

Five: Increase the membership of Federal Crop Insurance Board by adding two active farmers. Insured farmers have not had representation on the Board and their input is necessary.

Six: Stagger the terms of Board members so that some experienced members will be on the Board at all times. Currently, the entire membership is replaced with every change of administration. This has retarded the growth and effectiveness of Federal crop insurance.

These changes to the Federal Crop Insurance Corporation, with the present FmHA and SBA disaster loan plans, and incidentally they are very effective in our area and farmers are using them and they are needed and appreciated.

Senator HUDDLESTON. Do you think they should be retained?

Mr. RAY. Yes.

And with the cooperation and assistance of ASCS and the private insurance sector the Federal Crop Insurance Corporation can provide the solution to the crop disaster problems of the American farmer.

The Federal Crop Insurance Corporation, with its insurance expertise, dedicated and trained personnel, and years of experience, offer the very best solution to the disaster problem.

Mr. Chairman, at the conclusion of Mr. Carlson's testimony, I would be glad to answer any questions.

Senator HUDDLESTON. Mr. Carlson?

STATEMENT OF ELMO A. CARLSON, PRESIDENT, DEUEL COUNTY STATE BANK, CHAPPELL, NEBR.

Mr. CARLSON. Mr. Chairman and members of the committee; it gives me great pleasure to give testimony in favor of expanding the services of the Federal Crop Insurance Corporation.

To add credibility to my comments, I want to relate my identification with and knowledge of Federal crop insurance.

One: I am the president of the Deuel County State Bank of Chappell, Nebr., located in the heart of a wheat growing area situated between Ogallala and Sidney, Nebr.

Two: For 40 years our bank has had a very successful experience in the use of Federal crop insurance, ever since the Federal Crop Insurance Act was passed in 1938. Our bank has always appreciated the fact that FCIC performs a dual role; namely, (a) indemnity feature available for all losses, and (b) credit availability resulting from the use of FCIC collateral assignments on the growing crop.

Three: For 24 years our bank has had a close working relationship with the local Billy G. Ray Federal Crop Insurance Agency which has made it possible for nearly all of our bank farm customers to carry FCIC coverage.

Four: For 5 years I was a member of the National Board of Directors of the U.S. Federal Crop Insurance Corporation in Washington, D.C., from 1968 to 1973. I was appointed by Secretary of Agriculture Hardin, and later served under Secretary Earl Butz.

We have a very high appreciation for the Federal crop insurance program. In our farm community and in our bank, FCIC has played a great part in developing our area. Deuel County, where we live, is an excellent wheat-producing region. We use FCIC coverage very effectively, borrowing farmers, large and small, have carried FCIC coverage for many years. We make lots of loans secured only by the growing wheat crop and collateral assignment of Federal crop insurance contract. When we make a loan to a wheat farmer with a Federal crop insurance policy, and use the collateral assignment feature, we are absolutely assured of repayment of the loan.

Our many years of successful experience with FCIC confirms our reasoning that a banker in a wheat-farming area is equally justified and can make as good a loan to a wheat farmer secured by an FCIC insured growing wheat crop for source of repayment, as a banker in a cattle ranching area can make to a cattle rancher on a bred cow herd secured by bred cows to be repaid from the calf crop. Our bank has never had a single loss on a farm loan secured by the use of FCIC collateral assignment of the growing crop.

Our program of lending with FCIC collateral assignments has worked very well: Our community has grown, young people have started farming, bought farms, built farm homes, farm children educated, irrigation developed, hog-growing operations established, and a cattle backgrounding and feeding program in winter months has been superimposed upon a preexisting summertime wheat-farming economy.

The common practice of farmers is to carry Federal crop insurance, insuring the wheat crop beginning with the day it is planted until harvested against all natural hazards; if the crop survives damage by insects, mosaic, drought, or whatever, the farmer will insure for hail in the spring to guard against a loss of hail. I, personally, in my own farming operation, make certain by no later than May 10 of every year that my growing wheat crop is insured for hail with my own hail insurance agency. I also pay approximately \$3,000 each year for commercial hail insurance premiums.

At this point I want to reemphasize the second function of FCIC in providing credit availability with repayment guaranteed by an all-risk policy. The private commercial companies do not have the present or potential capability of providing this guarantee of loan repayments, because they insure for only one type of loss, hail. For many years I have been a partner in a local private insurance agency selling commercial hail insurance and other insurance. It has long been our observation and experience that the Federal crop insurance program does not conflict with the sale and use of commercial hail insurance protection, but instead, these forms of insurance complement each other. FCIC guarantees "out-of-pocket" expenses and commercial hail insures a "profit."

Federal crop insurance has played a very important part in providing a stability to agriculture. We have long regarded the Federal Crop Insurance Corporation as performing a stabilizing force for

farmers similar to that provided by the Federal Deposit Insurance Corporation for the safety of banks and bank depositors.

In the recent year 1977, we had a very serious hailstorm in our area which totally destroyed a large acreage of wheat and resulted in losses approximating \$1 million; 98 percent of the farmers had FCIC coverage which generated a nearly normal farm cash flow.

I own and operate a wheat farm and have insured under Federal crop for more than 30 years. From the viewpoint of an insured, a banker, and that of a past national FCIC Director, I want to go on record as stating that:

First: The Federal Crop Insurance Corporation, with its 40 years of insuring experience, should continue as the administering organization.

Second: The FCIC personnel are dedicated, experienced, and capable of coping with the proposed expanded program.

Third: The number of the members of the FCIC Board of Directors be increased to include two active farmers. (When I was on the Board, I was the only member who had current farm operating knowledge.)

Fourth: The limitations be removed to permit the Federal Crop Insurance Corporation to provide the opportunity of FCIC to all farmers on all crops.

I have long regarded the Federal Crop Insurance Corporation as performing a stabilizing force for farmers. I appreciate the efforts of your committee to consider offering Federal crop insurance to all farmers for all crops. In my opinion, this could be the most important farm legislation ever considered for the benefit of our rural economy.

Thank you.

Senator HUDDLESTON. Thank you, sir.

Senator Zorinsky?

Senator ZORINSKY. Thank you, Mr. Chairman.

Mr. Carlson, what is your opinion of the collateral feature of any proposed Federal crop insurance program?

Mr. CARLSON. Senator, our bank considers the dual role of Federal crop insurance as most important. It is an area that has been overlooked to a great extent by everyone.

Federal crop insurance provides indemnity; but with collateral availability and credit availability, its opportunities are really fantastic.

For the past 40 years our bank has successfully made loans secured by liens on the growing wheat crops. Our very successful policies enabled us to assist young men to begin their farm operations, helped retain the family farm, and, certainly, eliminated the need for disaster payments and disaster FmHA and SBA disaster loans, and we have long considered credit availability of Federal crop insurance as possibly the most important feature.

Senator ZORINSKY. Mr. Ray, does your insurance agency offer hail insurance?

Mr. RAY. No; I do not.

I wrote hail insurance until I acquired this contract with Federal crop insurance, and it wasn't the fact it would be a conflict in having both, but where I handled all the services for Federal crop insurance for three counties, I didn't have the time.

Senator ZORINSKY. What would be the effect, in your estimation, on your personal company if the Federal Government were to offer fire, hail, and lightning insurance in a comprehensive Federal program?

Mr. RAY. I think, as Mr. Carlson said, they really complement each other.

I know of a case, a young man came back from the Korean war. His father had some wheatland, and he took this wheatland over and started farming.

He didn't avail himself with the protection of Federal crop insurance.

He had extensive acreage and he did insure this with hail. The destruction was not by hail; it was by rust which totally destroyed his crop, and the young man was not able to pay the hail insurance premium, and it placed him in a position to lose his farming operation.

So, farmers really feel they need Federal crop insurance to guarantee they can pay the hail insurance premium.

I think hail insurance companies will write as much hail insurance with Federal crop insurance. It is necessary to keep the coverage down to a percentage which doesn't exceed the cost of the operation.

I believe the coverage should be established to return the cost of production. I think it should be a fixed percentage of the county yield or the farm yield or whatever the case might be.

This should be kept low enough so it doesn't discriminate and be detrimental to hail insurance.

As it is today, it is 75 percent. I think it is adequate.

Senator ZORINSKY. From your personal observation, as an insurance agent of that type, what kind of participation rates do you foresee for the State of Nebraska for the sort of Federal crop insurance program that the administration is currently proposing?

Mr. RAY. I don't favor this being placed in the hands of ASCS or in the hands of CCC. I think we would lose participation in the State of Nebraska if that were done, because this was the experience we had in the past.

ASCS is structured so the county committees really determine the policies of ASCS.

If you have a county committee that favors crop insurance or supports it, you can establish a pretty good program.

They don't all support it, and in the counties where they do not support it there is no way you could establish good participation.

The participation would be very low.

So, I don't think there is any way this would be done with the ASCS handling it.

Senator ZORINSKY. You are saying the participation would vary from county to county depending on the backing it receives.

Mr. RAY. This was done in the very beginning, the thing the Department of Agriculture is asking for today was done at the very beginning of Federal crop insurance.

It was handled then by AAA. For AAA I traveled the State of Nebraska, and if I found the county AAA committee was receptive to the idea, I could establish a pretty good program; but if I found the committeemen with opposition. I could not do it.

Senator ZORINSKY. Would I be correct in evaluating your position:

We could put you down as leaning against the administration's recommendation?

Mr. RAY. Very definitely, because I have a real strong feeling for the potential worth of the Federal Crop Insurance Corporation, and I think it would do much more if the limitations were taken off.

I think it could do more for farmers than any farm legislation we have had, and I would very definitely say that I would oppose abolishment of the Federal Crop Insurance Corporation.

Senator ZORINSKY. Thank you very much.

Thank you, Mr. Chairman.

Senator HUDDLESTON. You don't see any chance that you will give up your dual selling role voluntarily under the Federal program as proposed by the administration of a cooperative effort between private agents and Government representatives?

Mr. RAY. Yes; I do.

I think definitely a private agent can play an important role.

I have a contract with the Federal Crop Insurance Corporation; no salary, just a commission.

I think this works very well.

If the Corporation is asked to expand to all counties and all crops, with a time limit like 1 year or 2 years, I don't think they should be tied to any methods; I think they should be given an opportunity to use private insurance agents and ASCS offices and maybe offices in FmHA.

It would have to be done by many different methods, but I think the insurance agents should play the primary role.

Senator ZORINSKY. Even though farmers are looking for additional protection for additional crops, would a big sales effort get the participation up to 60 percent?

Mr. RAY. Very definitely.

Communication is the difficulty here.

It takes expertise to explain all of this to the farmer and get his acceptance and this takes salesmanship.

Senator HUDDLESTON. What level of participation do you think you could reach in Nebraska?

Mr. RAY. If the Federal Crop Insurance Corporation remains as the administering agency?

Senator HUDDLESTON. Yes; and expanded.

Mr. RAY. I think 60 percent.

The Federal Crop Insurance Corporation currently uses a measurement of insured acres. I think what you people are interested in is guaranteeing that this operating farmer has enough money to put a car back in.

I think we could reach 60 percent of operating farmers.

Senator HUDDLESTON. Gentlemen, thank you very much.

Senator ZORINSKY. Gentlemen, before you leave, I would like to thank you for testifying before the committee. Members of the committee will benefit in coming months and years from your testimony at the hearing today, and I want to thank you very much for an excellent presentation.

Mr. RAY. Thank you very much.

Senator HUDDLESTON. That completes our list of witnesses today.

Without objection, I submit for the record the statements of Mr. G. Edward Schuh, Deputy Assistant Secretary for International Affairs and Commodity Programs; and Jim Deal, Manager of the Federal Crop Insurance Corporation, describing the administration bill, made before the House Subcommittee on Conservation and Credit on February 27, 1979.¹

Also, several organizations have requested permission to file written comments on the legislation; so, without objection, the record will remain open for 10 days for submission of written statements.

The subcommittee will adjourn, subject to the call of the Chair.

[Whereupon, at 11:40 a.m., the subcommittee adjourned, subject to call of the Chair.]

¹ See p. 156 for the statement of Mr. Schuh, and p. 158 for the testimony of Mr. Deal.

APPENDIX

[The statements by the Academy of Actuaries and Richard Bill were furnished by Stephen Kellison; see p. 91 for his oral testimony.]

STATEMENT OF THE AMERICAN ACADEMY OF ACTUARIES TO THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY, NOVEMBER 15, 1977

We appreciate the invitation from Senator Talmadge to present suggestions or recommendations in connection with the Committee's indepth review of crop insurance and disaster programs related to American agriculture.

The American Academy of Actuaries is a professional organization of actuaries in all areas of specialization and employment. Its constituent organizations and their predecessors have represented the actuarial profession in the United States for over 80 years. Attached to this statement is an appendix which provides additional background information on the Academy.

I. Actuarial science involves the evaluation of the probabilities of uncertain future events, often over long periods of time, and the financial impact which these events involve. This obviously applies to crop insurance just as any other form of insurance or other long-range financial planning. Actuarial techniques are invaluable in ensuring the financial integrity of both public and private programs by providing the methodology according to which current costs are determined, appropriate reserve levels are established and projections of future trends in costs are recognized.

II. The Academy wishes to emphasize that the interest of the actuarial profession is concerned with the proper financing of these programs and not with the allocation of costs among various parties. Thus, as a professional organization, the Academy does not record a view on how the costs should be borne by various individuals or groups in the private or public sectors.

III. The Academy wishes to be constructive in the process of producing legislation by which the financing of crop insurance and other appropriate related programs is based on sound actuarial principles. This interest continues after programs are established by Congress to the extent that the responsible agencies need to make decisions which require the application of appropriate actuarial techniques and expertise.

IV. Any major change in the existing crop insurance and disaster programs will involve significant amounts of money. It is important that alternatives be considered and that for each a reasonably accurate estimate be made of the costs to be borne by producers and the government.

V. In order to do this, the programs and their alternatives need to be defined in a manner which allows proper actuarial analysis.

As an example, the costs involved under the proposed Farm Production Protection Act of 1977, S. 1575, would be difficult to estimate until a precise formulation is made of the meaning of "normal production level" and its relation to "normal production loss" and "catastrophic production loss" of individual producers.

Care must also be taken in attempting to evaluate the costs of a proposed program such as S. 1575 by extrapolating directly from current programs. Change in programs over time require adjustment of past experience to current benefits. Further, the revised scope of new programs requires careful analysis.

As an example, the scope of S. 1575 differs from the current Federal Crop Insurance program in that:

1. It appears that the definition of production costs has been significantly expanded. Since production costs are fully insured under the new program, it seems likely that the amount of risk will be considerably more than under the present Federal Crop Insurance Act which limits insurance to 75% of the average yield.

2. The addition of livestock and poultry as agricultural products adds complexity to the crop insurance program.

VI. In the interest of establishing on an actuarially sound basis those agricultural programs involving an element of insurance, the American Academy of Actuaries would be happy to identify the names of leading actuaries familiar with crop insurance. We are confident that there are a number who would be willing to assist in any manner deemed appropriate in evaluating proposed and established forecasting likely monetary outcomes and helping in the application of sound insurance principles. This could also include consideration of catastrophe reinsurance of crop insurance written by private insurance companies, if the Committee so desired.

Of course, any such Academy involvement would be structured on a basis most comfortable to the Committee. The actuaries so involved would be willing to work cooperatively with any governmental entity and, indeed, would of necessity need cooperation and access to data and information in the possession of these agencies.

STATEMENT OF RICHARD A. BILL, CHAIRMAN, CROP INSURANCE ACTUARIAL COMMITTEE BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT, HOUSE COMMITTEE ON AGRICULTURE, FEBRUARY 28, 1979

Mr. Chairman and members of the committee, I am Richard Bill, Actuary of Country Mutual Insurance Company. During 1978 an Ad Hoc committee of Casualty Actuaries, experienced in crop insurance ratemaking, was formed at the request of the National Crop Insurance Association. Committee members other than myself are Virgil Applequist, A.C.A.S., Actuary of American Agricultural Insurance Company; Robert Tatge, F.C.A.S., Actuarial Vice President of Farm Bureau Mutual of Iowa; and consultant E. Ray Fosse, Executive Secretary of Crop Hail Insurance Actuarial Association. With me today are Mr. Fosse, Rick Gibson of American Agrinsurance, and E. J. Hagy, Manager of Rain and Hail.

Our committee was formed for the purpose of developing a cost analysis of the administration's Farm Protection Programs introduced in the last session of Congress. As professional Actuaries, we felt our role should be limited to the cost analysis and thus our committee did not and should not attempt to make value judgments as to the desirability of one program versus another.

SUMMARY OF COSTING

The administration's proposed Farm Protection Act greatly expands the role of the Federal Government in crop insurance. Increased participation in Federal crop insurance would be obtained by providing premium subsidies to farmers and expanding the role of commissioned insurance agents in selling Federal crop insurance. The administration projects an increase in the insured acreage from approximately the present FCIC level of 8 percent¹ to 68 percent within three years after the program is implemented.

The result of our cost analysis, developed in 1978, indicated annual Federal cost of between \$812 million and \$1.137 billion for the 18 initial crops. USDA's estimate was \$542 million consisting of \$395 million of premium subsidies and \$147 million of expenses.

Subsequently, we learned the \$542 million estimate was for all crops instead of just the initial 18. The committee has revised our analysis to include all crops in addition to a few other adjustments to update our estimate.

The committee's revised estimate for all crops is \$1.220 billion. This costing is based on presumed USDA intentions and FCIC loss history. This estimate may be understated since no adjustments were made for the following items which will tend to increase Federal cost:

1. Ability of management to exercise underwriting discretion and/or cancellations appears to be limited if not removed from the new program.

2. The anticipated increase in participation from 8 percent to 68 percent and the introduction of new crops, in a short span of three years, may lead to unsound underwriting practices due to the large influx of inexperienced and untrained people in a short period of time.

¹ "Protecting the Farmers Against Natural Hazards: Issues and Options," Congressional Budget Office.

3. With a large increase in the insured price per bushel, some farmers may have less incentive to maximize yield once the yield falls below the guarantee level.

4. The estimate does not include cost of prevention planting coverage which can be covered under the new program and is presently covered by the disaster program.

The cost estimate was based on 1978 cost levels and thus subsequent increases in production cost and administrative expenses are not included.

Expenses

The FCIC budget for 1978 Fiscal year indicates approximately 32 cents in expenses for every dollar of premium of a 32 percent expense ratio.² The USDA assumed an expense ratio of 13.9 percent under the new program or a reduction of over 50 percent. Marketing costs alone, in our opinion, will average at least 12½ percent of premiums (before subsidy) if a 68 percent market penetration is to be obtained.

As an attempt to project the expense costs under the new program, the committee analyzed property and casualty company expense ratios by size of company.³ This analysis indicated that after \$100 million of premium volume, the expense ratio as a percent of premium changed very little as the size of the company increased. However, the costing did assume that to the extent the increase in premium volume was due to higher protection levels, expenses would not increase in the same proportion as premium. In our opinion, an expense ratio of approximately 26 percent is appropriate.

Indemnities

Estimated indemnities were based on 1948 through 1977 FCIC⁴ loss experience applied to production based on 1978 planted acres.⁵ FCIC experience, assuming an average 60 percent level of coverage, was adjusted for the proposed protection levels of 50 percent, 70 percent and 90 percent by developing a model based on accepted statistical procedures. Results of a study reported in the "Task Force 70" report (a study of FCIC operations) produced similar results. Our analysis indicated that the USDA rate relationship for the 90 percent protection level significantly understates the rate (therefore the cost) for the 90 percent level of protection.

The model rate relationships may even be understated since it does not consider, among other things, adverse selection. For example, yield guarantees cannot be set precisely and in many cases a 90 percent guarantee may be in excess of the farmers actual average yield. Certainly, these farmers will tend to purchase the higher protection levels, particularly the 90 percent level. In fact, a 90 percent protection level may not be insurable at any price.

High risk areas

A substantial number of counties or portions of counties are not now eligible for FCIC insurance due to the high risk nature of the area. We assumed inclusion of these areas will increase the long term loss per \$100 of insurance by 20 percent.

Participation levels

USDA costing assumed that 38 percent of farmers would purchase the 50 percent level, 24 percent at 70 percent and 6 percent at the 90 percent level for a total of 68 percent. No data is available to support any other assumption and the same distribution was used in our costing. To illustrate the effect of changing the distribution assume that the 68 percent participation were divided equally among the three protection levels. The increase in Federal cost would be approximately 20 percent.

Rate adequacy

The projected Federal cost of \$1.240 billion assumes rates are set on an actuarially sound basis with sound underwriting principles in setting individual guarantee levels. Traditionally, FCIC has strived for a 90 percent loss ratio. The 10 percent margin was to provide a reserve for unforeseen losses since the number of years of experience available for ratemaking does not reflect a full

² FCIC Budget for Fiscal 1979.

³ Source: 1977 Best's Aggregates and Averages.

⁴ FCIC 1977 Annual Report.

⁵ "Crop Production—1978 Annual Summary," U.S. Department of Agriculture.

cycle of weather hazards. The past 30 years of data does not include the worst possible weather and as such would not reflect the full realm of possibilities. Rates based on this experience, for example, would not include the possibility of a repeat of the dust bowl days of the thirties. A reserve for possible future occurrence of this type is certainly needed and in fact, 10 percent may not be adequate for all risk crop insurance.

It appears that the new act does not provide for a reserve for unforeseen losses to be included in the rates. In our opinion, this reserve is necessary if the program is to be on an actuarially sound basis. Ultimately, lack of this reserve in the rating could produce additional Federal cost of \$200 million annually.

As mentioned earlier, rates for the 90 percent level of protection may be seriously understated. Not only would this cause rate adequacy problems, but would also produce higher participation at the 90 percent level of protection than assumed.

The actual FCIC 1948-1978 loss ratio was about 100 percent compared to the target loss ratio of 90 percent or a 10 percent difference. If future rates are inadequate to the same degree, Federal cost could be an additional \$200 million higher annually.

Expansion of the program

Since the levels of subsidy are not specified in the act, costing was based on inferred USDA intent. Subsidy and therefore Federal cost could be increased or decreased by the corporation presumably without congressional review. As one illustration of the unusual degree of flexibility contained in the bill, free insurance could be granted for the 90 percent level of protection which would produce Federal cost in excess of \$9 billion annually.

Also the bill allows protection to be extended to livestock and poultry. The addition of livestock could almost double protection under the program and presumably almost double the cost of the program.

Separate insurance entity

The act specifies that FCIC would be absorbed by the Commodity Credit Corporation. Apparently the insurance operation would be funded on a year to year basis. The act contains no provision to provide a reserve from good years to absorb losses from years in which indemnities exceed premium. For example, based on FCIC loss ratio, a year such as 1977 would have produced Federal cost in excess of \$2.5 billion for that year. This is in spite of the fact that 1977 was a near record production year.

Also, it is not clear as to the degree of maintaining separate financial records for the insurance operations. If a sound insurance operation is desired and accountability is to be maintained, the financial results must be separated from other USDA programs and reserves should be accumulated to preserve the insurance concept.

COMPARISON WITH USDA COST ESTIMATE

Due to the large discrepancy in the estimated cost, FCIC invited our committee to confer with their staff to review costing assumptions. We would like to commend the staff of FCIC for their openness and willingness to discuss the issues. There are four principle areas of disagreement which are discussed below.

(1) Both costing methods began with an estimate of potential protection. The committee's estimate of total potential protection is \$55 billion which is about 50 percent higher than FCIC's estimate of \$36 billion as shown in the attached exhibit. This would be the theoretical maximum liability at 100 percent participation, insured at 100 percent of the cost of production. Potential protection was then reduced to 68 percent participation level and adjusted for the 50 percent, 70 percent, and 90 percent levels of protection to obtain total insurance liability. Obviously, if potential protection is understated, total premium and thus Federal subsidy will be understated by a like percent.

FCIC's potential protection was developed from "Farm Production Expense" data. This type of data varies tremendously depending on what is included and at what value. It is not clear what production expenses have been included in \$36 billion nor the source of the data.

From a practical standpoint, cost of production data should not be used directly in determining estimated insurance liability. In the final analysis, the determining factor is the insured price per bushel. The examples published by FCIC were based on target prices. Our estimate of potential protection was based

on the assumption that crops would be insured at or near target prices. To determine if the \$55 billion estimated potential protection was reasonable, we compared this result to data published by USDA. For example, the 1977 "Value of Production" for all crops was \$54.6 billion.⁶ Prices during 1977 were generally at or below target prices and per bushel cost of production levels (including land and management cost).⁷

Also, using 1977 crop production multiplied by per bushel cost of production data⁷ for 10 major crops results in aggregate production cost slightly higher than the committee's estimate of potential protection for these crops. Based on these and other comparisons, we feel that the \$55 billion is a reasonable estimate of total potential protection.

(2) As indicated earlier, the committee assumed the inclusion of high risk areas in the proposed program would increase losses per \$100 of liability by 20 percent. FCIC assumed a 10 percent increase. FCIC has agreed to conduct further research on the effect of high risk areas through a sampling plan.

(3) Under the proposed program, rates would be reduced to eliminate the current 10 percent reserve for unforeseen losses. As stated earlier, the committee feels this reserve must be retained if the premium over the long term is to be adequate to pay losses.

(4) USDA's estimated expense ratio is 13.9 percent of total premium compared to the committee's estimate of 26.1 percent as shown below.

[In percent]

	FCIC estimated 1978 ¹	Projected expenses	
		USDA FPP estimate	Actuarial committee estimate
Loss adjustment.....	7.80	2.83	4.55
Marketing.....	8.23	2.96	12.50
Other expenses.....	15.71	8.10	9.01
Total.....	31.74	13.89	26.06

¹ Developed from FCIC 1979 budget.

The greatest difference of opinion relates to marketing expenses. USDA assumed that 20 percent of the premium would be marketed through private agents. The marketing cost for the other 80 percent marketed through USDA was estimated at 1.2 percent which was based on ASCS cost data from the 1972 Feed Grain Sign Up Program. An additional 1 percent was included for promotional expenses.

The committee's cost estimate was based on the assumption that a large portion of the program would need to be marketed through private agents if the 68 percent market penetration is to be obtained. We assumed that the overall average marketing cost for the program would be 12½ percent.

To summarize, the Actuarial Committee estimates the average annual cost of the Farm Production Protection Program to be \$1.220 billion assuming rates are adequate. The major actuarial concerns and conclusions of the committee are:

(1) The administration has seriously underestimated total potential protection, the effect of high risk areas, and expense cost of the program. In addition, the reserve for unforeseen losses is actuarially sound and should be retained.

(2) If adjustments were made to USDA's \$542 million estimate for the four factors discussed above, little difference would remain between the two estimates.

(3) If rates and guarantee levels are not set properly, Federal cost would be even higher than the \$1.220 billion estimate. In addition, the committee questions the insurability of the 90 percent level of protection which could lead to serious rate adequacy problems.

(4) Expansion of the program to livestock and poultry as well as increases in the subsidy level would be at the discretion of the corporation, presumably without congressional approval, and could have a tremendous effect on Federal cost.

(5) If a sound insurance operation is desired and accountability is to be maintained, a separate insurance entity should be retained.

⁶ Crop Reporting Board, ESCS, USDA.

⁷ "Costs of Producing Selected Crops in the United States" prepared by Economic Research Service, U.S. Department of Agriculture.

I would conclude by saying that our committee stands ready to (1) meet with anyone interested in reviewing our costing assumptions in more detail or (2) to revise our costing if the proposed program is modified. I would be happy to answer any questions you may have regarding the proposed program or our costing assumptions.

TOTAL POTENTIAL PROTECTION

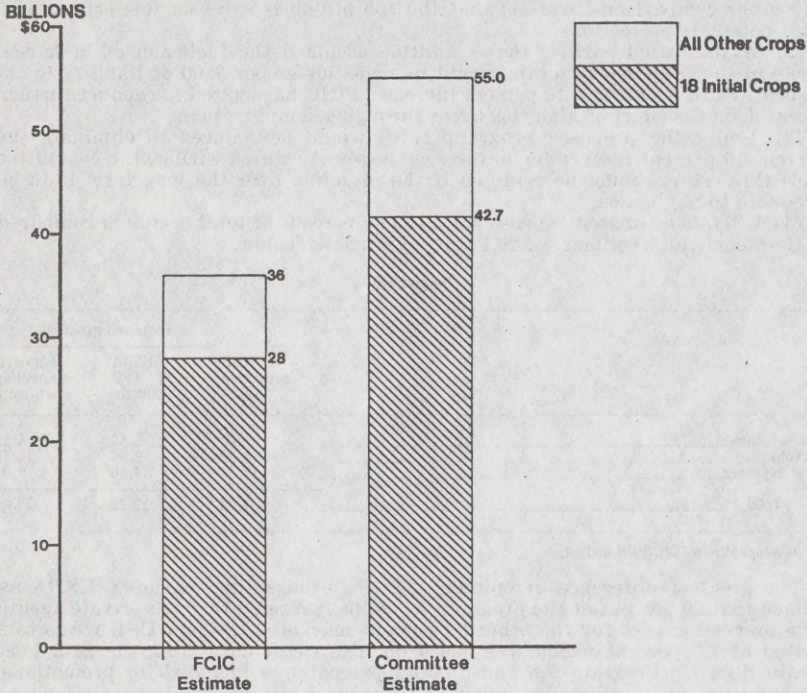


EXHIBIT I

STATEMENT OF JOSEPH B. McGRATH, VICE PRESIDENT, GOVERNMENT AFFAIRS, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. Chairman and members of the subcommittee, I am Joseph B. McGrath, Vice President, Government Affairs, with the National Forest Products Association. NFPA is based in Washington, D. C. and is a federation of 29 regional, product and species forest industry organizations, plus 15 direct member companies. NFPA represents the growers, manufacturers, and wholesalers of timber and solid wood products in the United States.

We support the inclusion of timber and forests in the legislation to expand the Department of Agriculture's disaster insurance coverage for agricultural crops. Availability of insurance against natural hazards which destroy or damage timber can be a major incentive to encourage private, non-industrial landowners to manage their woodlands for timber production.

TIMBER GROWING IS HAZARDOUS

There are many reasons why individual non-industrial landowners may choose not to make investments in forestry. First, growing trees to maturity takes a long time. Second, prohibitive estate, property and income taxes often make the overall return low when compared to alternative investments. Third, there is no regular cash flow from a forestry investment; landowners receive cash returns

only 2 or 3 times during the life of the timber stand. Finally, many landowners are simply not aware of the possibilities that forestry may present to them.

But a major concern expressed by many landowners when considering reforestation is the high risk associated with forestry investments. Landowners are afraid of losing both their stand of trees and their total investment, through fire, insect and disease attack, hurricane, drought, or ice storms. Presently, no all-risk casualty insurance coverage is available for these landowners. Thus, insurance coverage as proposed in the legislation being considered could be a major incentive for non-industrial landowners to grow timber on their land.

PREFERENCE FOR PRIVATE INSURANCE

Let me point out that our preference is to keep such a timber insurance program within the private sector. Private companies have never offered timber coverage, but the NFPA staff has been working with at least one major company interested in exploring the possibility. If private coverage is forthcoming, we understand USDA would reconsider offering coverage, provided the private program is suitable and adequate to meet demand. We feel this is a reasonable approach to the issue.

We also understand that prior to implementing an insurance program, USDA must undertake a study of timber insurance. We support such a study. The concept is relatively new and many questions must be answered. Undoubtedly the involvement of Congress and the USDA in this matter is a spur to the interests of the private insurance delivery. It could well be that some form of collaboration or joint insurance coverage could result.

INTEREST AS A COST OF PRODUCTION

We do have a specific concern with one portion of the bill. The provision for insuring certain levels of production costs does not adequately reflect the long term nature of timber management. To grow Southern pines, landowners often must spend in excess of \$100 per acre for necessary reforestation. Under the bill, we assume this amount to be production cost which USDA will insure at a level specified by the landowner. However, the landowner's forestry investment is not adequately protected unless the production costs include interest or carrying charges.

For example, consider a landowner who spends \$100 an acre to establish a pine plantation. He elects to purchase insurance coverage for 90 percent of his production costs. Ten years later his plantation is destroyed by fire and his insurance pays \$90 per acre. However inflation at 8 percent annually has driven his cost of replacing the plantation to \$215.90. Furthermore, if the plantation has grown at the rate of 7 percent per year, the accrued value of it is \$196.70. The \$90 insurance payment does not begin to cover either his re-establishment cost or the value of the lost growth. Therefore, we suggest the legislation be amended to include interest as a cost of production in the case of long-term crops such as timber.

TIMBER PRODUCTION IS IMPORTANT

Gentlemen, each year the United States consumes over 65 billion board feet of timber in a myriad of paper and solid wood products. The total acreage necessary to grow the amount of timber we harvest each year is roughly equal to an area the size of Massachusetts. Fortunately, however, modern forestry and effective wood utilization have enabled us to grow more wood than we harvest each year. But we must take steps now to assure an adequate, competitively priced wood supply in the future, since the demand for wood is projected to double by the turn of the century.

Where will the additional needed wood come from? Over 65 billion board feet is harvested each year. Approximately a third comes from public lands, such as the National Forests, a third from lands owned by the forest industry, and a third from private non-industrial lands. Public lands are increasingly being withdrawn from timber production and put into restrictive single use management classifications such as "wilderness." Substantially raising production on public lands is unlikely if this trend continues. Forest industry lands already produce wood at relatively a high rate, but they comprise only 14 percent of our total commercial forestland base. Industry lands cannot, alone, meet the future demand. Much of the additional wood must be grown on the 282 million acres of private, non-industrial lands owned by 4 million individual landowners.

A substantial portion of the additional wood the country will need is softwood, most commonly used for housing, construction and paper products. Softwood timber species must often be grown under intensive silvicultural practices, which requires a high initial investment by the landowner for reforestation. Private non-industrial landowners, all too often, do not perceive an advantage to reforesting harvested softwood stands. The Forest Service estimates that each year up to 1,000,000 acres of high quality pine lands go unreforested and revert to undesirable hardwood species and brush. This is a serious problem both for mills like mine which depend on private non-industrial lands for their raw material needs and for American consumers who depend upon the products we produce.

CONCLUSION

Developing an effective timber insurance program will be a complex process, whether the private sector or USDA undertakes the project. In developing the program, we are essentially plowing new ground. I am sure we will encounter many obstacles. The forest industry is prepared to offer whatever assistance we can to help develop risk, loss and other actuarial data, plus aid in any necessary studies to assess the potential benefit and pitfalls of timber insurance. We also will continue to explore similar avenues with interested private companies.

In summary, we feel timber casualty insurance can be an effective incentive for non-industrial landowners to manage their lands for timber production. I must emphasize that meeting demand for wood by the turn of the century is totally dependent upon the actions we take now, since it will take at least twenty years for the needed trees to grow, at least in my part of the country. Therefore, it is timely for Congress to consider federal casualty insurance for timber. With the addition of interest as a cost of production, we support the legislation.

Thank you for the opportunity to testify.

STATEMENT OF DANIEL J. MORRISSEY, EXECUTIVE VICE PRESIDENT, LOHMAN BROTHERS INSURANCE AGENCY, GENESEO, ILL., REPRESENTING NATIONAL CROP INSURANCE COUNCIL

Mr. Chairman and members of the committee, I am Dan Morrissey, Executive Vice President of Lohman Brothers Insurance Agency in Geneseo, Illinois, and a member of the Independent Insurance Agents of America.

I appear before you in behalf of the total private crop insurance industry which, under auspices of the National Crop Insurance Council, has in unanimity formulated a position reflecting the concerns of our companies and agents, stock and mutual, large and small, who write crop-hail insurance and other insurances needed by farmers. The National Crop Insurance Council (NCIC) is a forum of insurance trade associations consisting of the following:

- American Insurance Association—ATA (147 companies).
- Alliance of American Insurers—AAI (166 companies).
- Crop Insurance Research Bureau, Inc.—CIRB (31 companies).
- National Association of Independent Insurers—NAII (450 companies).
- Independent Insurance Agents of America, Inc.—IIAA (150,000 agents).
- Professional Insurance Agents—PIA (42,000 agents).
- National Association of Mutual Insurance Companies—NAMIC (1107 companies).
- National Crop Insurance Association—NCIA (104 companies).
- 30 State/Regional Agent Association Affiliates.

This united industry position will be presented in three parts:

- A. Deletion of hail, fire and lightning in federal crop insurance programs, and provide for realistic reinsurance of private insurers and deletion of the 20-county limitation.
- B. Opposition to the Administration Farm Production Protection Act.
- C. Some suggested legislative alternatives.

Before proceeding to these in some detail, we wish to be understood on two very important points:

First: We share with you a concern for the welfare of farmers. Not only are they our customers and the backbone of the national economy, but also we are particularly attuned to the problems and needs of farmers;

Second: The crop insurance objectives of the Congress and the Administration are laudable, at least as we perceive them. We are critical of much, but not all of the features of proposed Administration legislation. Our concern has mainly to do with how the perceived objectives are to be achieved, and we would hope that as we offer alternatives our criticism will be taken as constructive rather than negative, and as motivated by concern for the interest of not just our business but also for those of farmers, consumers, and all of us as taxpayers.

We think a third point needs greater appreciation. The major concern of most farmers is with operating costs and commodity prices. Our agricultural productivity is one of the wonders of the world, the inclination of farmers to produce and their effective responses in critical periods of need have been dramatically demonstrated, as most of us remember. The incentive for abundant production has been price margin potential, not government programs in general or crop insurance in particular. Indeed, no more than 15 percent of the eligible producers have utilized FCIC, in comparison with which upwards of 25 percent annually purchase hail insurance on their growing crops. We therefore note with some uneasiness the language of the preamble of the previously introduced Administration Bill: ". . . to assure consumers that producers will be able to continue to produce food and fiber." As we read the mood of commercial farmers, we would respectfully observe that achievement of that aim depends upon the cost/price economics of farming with which all farmers must contend every year, much more than upon crop insurance for which only a few feel a need and only part of the time.

Now for part A of our position statement:

(1) We wish from the Congress, most of all, that it decline all proposals which would pre-empt or threaten our on-going free enterprise endeavors in crop-hail insurance. For more than 65 years, we have successfully and to the satisfaction of farmers provided this coverage throughout the nation. We see it as neither right nor necessary for this successful, taxpaying enterprise to be destroyed or threatened by any government program.

We view the Administration proposal in its present form, coupled with the expressed goals of the Administration of at least 68 percent participation, as the nationalization of the crop insurance business. The broad provisions as to coverages, the expansion nationwide, the establishment of a nationwide agency system, the unlimited subsidy of premium and expense and the expressed consideration of compulsion through the farm program benefits leaves little doubt that, as a satisfactory substitute for the present free disaster program, a nationalized crop insurance program will result and the private crop insurance industry will be eliminated.

We therefore recommend deletion of hail and fire from any and all federal crop insurance programs.

(2) We are aware of no demonstrated general unmet need or desire of farmers for insurance other than on crop production. We therefore recommend that the federal programs, if any, be confined to growing crops. We also strongly urge a common sense approach to multiple peril crop insurance, limiting coverage to realistic levels below the range of normal variation in annual crop yields, with options of coverage priced to include the whole cost of both claims and the cost of administration.

(3) As both private and corporate taxpayers, we resist the commitment of tax dollars to overly generous programs which are wrong on principle and unfairly discriminatory in application. The presumption that all farmers need help all the time is unsubstantiated; the free disaster payments feature of the 1973-1977 farm bills is a dismal example, the most obvious and objectionable defect of which being the definition of a "disaster" as yield of a single crop less than 60 percent of normal. We are not aware that any other segment of our economy or society routinely enjoys free insurance wholly at the expenses of the taxpayers.

We believe that there is no justification for the taxpayers to subsidize the cost of crop insurance any more than the cost of the farmers' other insurance needs which are a legitimate cost of doing business and a deductible item for income tax purposes.

(4) The crop insurance industry has for nine years been engaged in experimental development of multiple peril crop insurance comparable to that offered by FCIC. Companies and agents have learned much in this area. But the nature of the risk involved requires catastrophe reinsurance beyond the resources available in private industry. With proper reinsurance provided by Government, private industry could, under acceptable conditions and through its country-wide

agency system, extend the availability of all risk crop insurance to all who are interested. This could be accomplished without additional Government employees and facilities. We therefore recommend deletion of the 20-county limitation in the present FCIC act and inclusion of a provision for catastrophe reinsurance to private industry.

In addition, we recommend that the federal subsidy enjoyed by the customers of FCIC be extended to the customers of the private companies.

Part B: Our principal objections to the Administration proposals are briefly as follows:

(1) There is no demonstrated need or demand for a grand new program. Even the survey of farmers (study of crop insurance commissioned by FCIC) does not show an interest in grand new design; the principal concern expressed by those respondents was for availability and continuity of crop insurance. We are also dismayed that the Secretary proposes to dissolve FCIC and transfer the insurance responsibility to a non-insurance agency. As professionals, we would caution that administering an insurance program is difficult enough without foregoing insurance expertise.

(2) The Administration has grossly understated the cost of its proposed program. The Administration bill authorizes too much discretion, for any reason, so much that there is probably no way to estimate the ultimate cost if maximum authorized discretion were exercised.

(3) The proposed program would destroy our hail insurance business, without even a redeeming greater purpose such as the general welfare. Highly subsidized overly generous federal insurance would obviate the need or desire for crop-hail insurance.

(4) In addition to that almost certain pre-emption, the bill provides that the corporation may "offer specific risk protection programs . . ." and hail insurance is not excluded; so the bill hands to the Secretary the latch key for nationalizing the private crop-hail insurance industry.

(5) There is in the bill at least an implied threat of regimentation of farmers. There would be great temptation, pursuant to making the proposed program "work", to require participation as a condition for receiving other program benefits.

(6) The Administration bill omits provision for reinsurance of private companies or for any role of the private companies. There is a "nod" to the independent agents, but the 1978 pilot program pertaining to independent agent participation suggests that the Secretary is out of touch with reality: the proffered incentive for an independent agent to engage in a marketing arrangement is not sufficient to meet overhead costs of doing business. By whatever method of compensation, "the laborer is worthy of his hire".

Insurance agents in every community of the crop growing areas would be affected by the loss of their crop-hail insurance business. Thousands of company employees, adjusters, and field men would also be displaced. Agents have rejected all proposals of the Administration to market the program through them as being unfair and unrealistic, since ownership of the business would remain with the Government.

(7) In brief, the Administration proposal is a classic example of over-kill, scarcely in keeping with the appropriate advice of that rustic sage, lately often quoted as "if it ain't broke, don't fix it".

Part C: Legislative Alternatives.

Recognizing there is a need for some action soon, we commend to your consideration S. 399, introduced by Senator Dole, and S. 646, introduced by Senator Huddleston. The following are the essential elements with which we are concerned and which, in our view, are all that are needed at this time:

(1) Eliminate hail and fire insurance from FCIC coverages as well as the insurance on harvested crops; these are completely and adequately provided by the private insurance industry to the satisfaction of farmers.

(2) Facilitate the extension of availability of all risk crop insurance:

(a) remove the 150 annual new county limitation on expansion of FCIC;

(b) provide a realistic reinsurance facility for private companies or pools of companies;

(c) once and for all, for at least the near future, responsibly and adequately fund FCIC.

(3) Extend disaster payments for one or two years, to afford time for em- placement of insurance alternatives. However, the extension ought to be coupled with a revision in the threshold for eligibility and rate of payment: we recom-

mend substitution of 30 percent of normal yield at target price, instead of 60 percent at half target price, which gets the same dollar payout for a total crop failure; inception at more nearly a true "disaster" level will reduce the cost of indemnities and the consequent reduced frequency of claims would substantially reduce cost of administration.

There is every reason to require coordination of benefits, especially with other tax supported programs such as FCIC. For example, hail damage has been quite severe in some areas this season. We have reports of hail insurance paying for a total loss on corn and for the same loss the farmer will be eligible for disaster payment. It is not clear to us what FCIC does in such a situation. We doubt that the Congress intends that anyone should "profit" by way of government programs, but there were some farmers in 1978 better off with a hailed-out crop than if they had a bumper yield.

(4) The rate structure for federal crop insurance should include the full and complete direct and indirect costs of administration as well as of indemnities. This is important for several reasons, two of which especially pertinent to this context are: first, so that the Congress and the farmer realize the true extent of subsidy; secondly, so that if private companies are ever involved in a partnership to extend the availability of all risk crop insurance the federal support, if any, may be equal to customers of either source.

(5) We think the matter of premium subsidy is overdone but it may be necessary or expedient to achieve an orderly transition from free disaster payments to insurance. However, any such subsidy should be (a) variable by level of coverage options and concentrated on the lower levels; and (b) phased out after two or three years. The inclusion of crop insurance premiums as a deductible expenses for tax purposes should suffice and is consistent with the tax treatment of other businesses.

In conclusion, I would reiterate three major points which we trust we have made:

1. The Administration's costly proposal goes far beyond the demonstrated needs of farmers.

We are united in our opposition to it.

2. The Administration proposal threatens the private crop-hail insurance industry. No reason to pre-empt or to "nationalize" it, is demonstrated as superseding even the Administration's professed preference for letting private industry do what it can do best.

3. We urge you to enact only such new law as is necessary to avail to all farmers only that which private industry cannot do.

This concludes our statement. We thank the Committee for the opportunity to appear before you and we register with you our willingness to work towards a crop insurance program which at minimum cost to the taxpayers will meet the needs of farmers and consumers.

STATEMENT OF RICHARD A. BILL, CHAIRMAN, CROP INSURANCE ACTUARIAL
COMMITTEE, NATIONAL CROP INSURANCE COUNCIL

Mr. Chairman and members of the committee. I am Richard Bill, Actuary of Country Mutual Insurance Company. During 1978 an Ad Hoc committee of Casualty Actuaries, experienced in crop insurance ratemaking, was formed at the request of the National Crop Insurance Association. Committee members other than myself are Virgil Applequist, A.S.C.S., Actuary of American Agricultural Insurance Company; Robert Tatge, F.C.A.S, Actuarial Vice President of Farm Bureau Mutual of Iowa; and consultant E. Roy Fosse, Executive Secretary of Crop Hail Insurance Actuarial Association. With me today are Mr. Applequist and E. J. Hagy, Manager of Rain and Hail.

Our committee was formed for the purpose of developing a cost analysis of the administration's Farm Production Protection Act introduced in the last session of Congress. As professional Actuaries, we felt our role should be limited to the cost analysis and thus our committee did not and should not attempt to make value judgments as to the desirability of one program versus another.

SUMMARY OF COSTING

The administration's proposed Farm Production Protection Act greatly expands the role of the Federal Government in crop insurance. Increased participation in Federal crop insurance would be obtained by providing premium subsidies

to farmers and expanding the role of commissioned insurance agents in selling Federal crop insurance. The administration projects an increase in the insured acreage from approximately the present FCIC level of 8 percent¹ to 68 percent within three years after the program is implemented.

The result of our cost analysis, developed in 1978, indicated annual Federal cost of between \$812 million and \$1.137 billion for the 18 initial crops. USDA's estimate was \$542 million consisting of \$395 million of premium subsidies and \$147 million of expenses.

Subsequently, we learned the \$542 million estimate was for all crops instead of just the initial 18. The committee has revised our analysis to include all crops in addition to a few other adjustments to update our estimate.

The committee's revised estimate for all crops is shown below :

	<i>Millions</i>
18 initial crops-----	\$917
Other crops-----	303
All crops-----	1, 220

Also, USDA has recently updated their estimate from \$542 million to \$632 million annual cost.

The 1.220 billion estimate is based on presumed USDA intentions and FCIC loss history. This estimate may be understated since no adjustments were made for the following items which will tend to increase Federal cost :

1. Ability of management to exercise underwriting discretion and/or cancellation appears to be limited if not removed from the new program.

2. The anticipated increase in participation from 8 percent to 68 percent and the introduction of new crops, in a short span of three years, may lead to unsound underwriting practices due to the large influx of inexperienced and untrained people in a short period of time.

3. With a large increase in the insured price per bushel, some farmers may have less incentive to maximize yield once the yield falls below the guarantee level.

4. The estimate does not include cost of prevented planting coverage which can be covered under the new program and is presently covered by the disaster program.

5. The cost estimate was based on 1978 cost levels and thus subsequent increases in production cost and administrative expenses are not included.

Expenses

The FCIC budget for 1978 fiscal year indicates approximately 32 cents in expenses for every dollar of premium or a 32 percent expense ratio.² The USDA assumed an expense ratio of 13.9 percent under the new program or a reduction of over 50 percent. Marketing costs alone, in our opinion, will average at least 12½ percent of premiums (before subsidy) if a 68 percent market penetration is to be obtained.

As an attempt to project the expense costs under the new program, the committee analyzed property and casualty company expense ratios by size of company.³ This analysis indicated that after \$100 million of premium volume, the expense ratio as a percent of premium changed very little as the size of the company increased. However, the costing did assume that to the extent the increase in premium volume was due to higher protection levels, expenses would not increase in the same proportion as premium. In our opinion, an expense ratio of approximately 26 percent is appropriate.

Indemnities

Estimated indemnities were based on 1948 through 1977 FCIC⁴ loss experience applied to production based on 1978 planted acres.⁵ FCIC experience, assuming

¹ "Protecting the Farmer Against Natural Hazards: Issues and Options" Congressional Budget Office.

² FCIC Budget for Fiscal 1979.

³ Source: 1977 Best's Aggregates and Averages.

⁴ FCIC 1977 Annual Report.

⁵ "Crop Production—1978 Annual Summary," U.S. Department of Agriculture.

an average 60 percent level of coverage, was adjusted for the proposed protection levels of 50 percent, 70 percent and 90 percent by developing a model based on accepted statistical procedures. Results of a study reported in the "Task Force 70" report (a study of FCIC operations) produced similar results. Our analysis indicated that the USDA rate relationship for the 90 percent protection level significantly understates the rate (therefore the cost) for the 90 percent level of protection.

The model rate relationships may even be understated since it does not consider, among other things, adverse selection. For example, yield guarantees cannot be set precisely and in many cases a 90 percent guarantee may be in excess of the farmers actual average yield. Certainly, these farmers will tend to purchase the higher protection levels, particularly the 90 percent level. In fact, a 90 percent protection level may not be insurable at any price.

High risk areas

A substantial number of counties or portions of counties are not now eligible for FCIC insurance due to the high risk nature of the area. We assumed inclusion of these areas will increase the long term loss per \$100 of insurance by 20 percent.

Participation levels

USDA costing assumed that 38 percent of farmers would purchase the 50 percent level, 24 percent at 70 percent and 6 percent at the 90 percent level for a total of 68 percent. No data is available to support any other assumption and the same distribution was used in our costing. To illustrate the effect of changing the distribution, assume that the 68 percent participation were divided equally among the three protection levels. The increase in Federal cost would be approximately 20 percent.

Rate adequacy

The projected Federal cost of \$1.220 billion assumes rates are set on an actuarially sound basis with sound underwriting principles in setting individual guarantee levels. Traditionally, FCIC has strived for a 90 percent loss ratio. The 10 percent margin was to provide a reserve for unforeseen losses since the number of years of experience available for ratemaking does not reflect a full cycle of weather hazards. The past 30 years of data does not include the worst possible weather and as such would not reflect the full realm of possibilities. Rates based on this experience, for example, would not include the possibility of a repeat of the dust bowl days of the thirty's. A reserve for possible future occurrence of this type is certainly needed and in fact, 10 percent may not be adequate for all risk crop insurance.

It appears that the new act does not provide for a reserve for unforeseen losses to be included in the rates. In our opinion, this reserve is necessary if the program is to be on an actuarially sound basis. Ultimately, lack of this reserve in the rating could produce additional Federal cost of \$200 million annually.

As mentioned earlier, rates for the 90 percent level of protection may be seriously understated. Not only would this cause rate adequacy problems, but would also produce higher participation at the 90 percent level of protection than assumed.

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Also the bill allows protection to be extended to livestock and poultry. The addition of livestock could almost double protection under the program and presumably almost double the cost of the program.

Separate insurance entity

The act specifies that FCIC would be absorbed by the Commodity Credit Corporation. Apparently the insurance operation would be funded on a year to

year basis. The act contains no provision to provide a reserve from good years to absorb losses from years in which indemnities exceed premium. For example, based on FCIC loss ratio, a year such as 1977 would have produced Federal cost in excess of \$2.5 billion for that year. This is in spite of the fact that 1977 was a near record production year.

Also, it is not clear as to the degree of maintaining separate financial records for the insurance operations. If a sound insurance operation is desired and accountability is to be maintained, the financial results must be separated from other USDA programs and reserves should be accumulated to preserve the insurance concept.

COMPARISON WITH USDA COST ESTIMATE

Due to the large discrepancy in the estimated cost, FCIC invited our committee to confer with their staff to review costing assumptions. We would like to commend the staff of FCIC for their openness and willingness to discuss the issues. There are four principal areas of disagreement which are discussed below.

(1) Both costing methods began with an estimate of potential protection. The committee's estimate of total potential protection is \$55 billion which is about 25 percent higher than FCIC's current estimate of \$44 billion as shown in the attached exhibit. This would be the theoretical maximum liability at 100 percent participation, insured at 100 percent of the cost of production. Potential protection was then reduced to 68 percent participation level and adjusted for the 50 percent, 70 percent and 90 percent levels of protection to obtain total insurance liability. Obviously, if potential protection is understated, total premium and thus Federal subsidy will be understated by a like percent.

FCIC's potential protection was developed from "Farm Production Expense" data. This type of data varies tremendously depending on what is included and at what value. It is not clear what production expenses have been included in the \$44 billion.

From a practical standpoint, cost of production data should not be used directly in determining estimated insurance liability. In the final analysis, the determining factor is the insured price per bushel. The examples published by FCIC were based on target prices. Our estimate of potential protection was based on the assumption that crops would be insured at or near target prices. To determine if the \$55 billion estimated potential protection was reasonable, we compared this result to data published by USDA. For example, the 1977 "Value of Production" for all crops was \$54.6 billion.⁶ Prices during 1977 were generally at or below target prices and per bushel cost of production levels (including land and management cost).⁷

Also, using 1977 crop production multiplied by per bushel cost of production data⁷ for 10 major crops results in aggregate production cost slightly higher

⁶ Crop Reporting Board, ESCS, USDA.

⁷ "Costs of Producing Selected Crops in the United States" prepared by Economic Research Service, U.S. Department of Agriculture.

TOTAL POTENTIAL PROTECTION

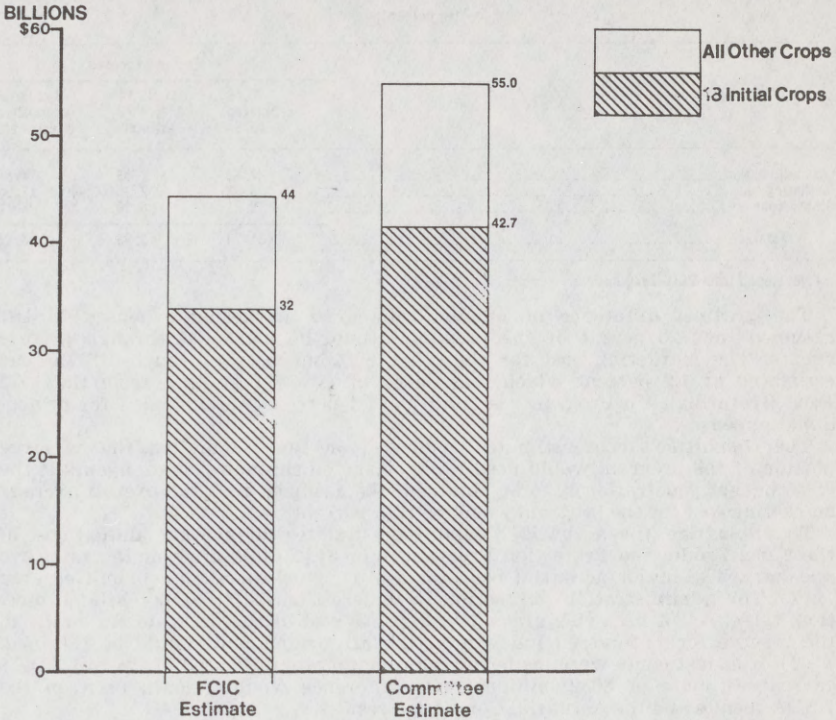


EXHIBIT 1

than the committee's estimate of potential protection for these crops. Based on these and other comparisons, we feel that the \$55 billion is a reasonable estimate of total potential protection.

(2) As indicated earlier, the committee assumed the inclusion of high risk areas in the proposed program would increase losses per \$100 of liability by 20 percent. FCIC assumed a 10 percent increase. FCIC is conducting further research on the effect of high risk areas through a sampling plan.

(3) Under the proposed program, rates would be reduced to eliminate the current 10 percent reserve for unforeseen losses. As stated earlier, the committee feels this reserve must be retained if the premium over the long term is to be adequate to pay losses.

(4) USDA's estimated expense ratio is 13.9 percent (13.2 percent for latest update) of total premium compared to the committee's estimate of 26.1 percent as shown below.

[In percent]

	Projected expenses		
	FCIC estimated 1978 ¹	USDA FPP estimate	Actuarial committee estimate
Loss adjustment.....	7.80	2.83	4.55
Marketing.....	8.23	2.96	12.50
Other expenses.....	15.71	8.10	9.01
Total.....	31.74	13.89	26.06

¹ Developed from FCIC 1979 budget.

The greatest difference of opinion relates to marketing expenses. USDA assumed that 20 percent of the premium would be marketed through private agents. The marketing cost for the other 80% marketed through USDA was estimated at 1.2 percent which was based on ASCS cost data from the 1972 Feed Grain Sign Up Program. An additional 1 percent was included for promotional expenses.

The committee's cost estimate was based on the assumption that a large portion of the program would need to be marketed through private agents if the 68% market penetration is to be obtained. We assumed that the overall average marketing cost for the program would be 12½ percent.

To summarize, the Actuarial Committee estimates the average annual cost of the Farm Production Protection Program to be \$1.220 billion assuming rates are adequate. The major actuarial concerns and conclusions of the committee are:

(1) The administration has seriously underestimated total potential protection, the effect of high risk areas, and expense cost of the program. In addition, the reserve for unforeseen losses is actuarially sound and should be retained.

(2) If adjustments were made for the four factors discussed above to USDA's current estimate of \$632 million, little difference would remain between the USDA results and the Actuarial Committee results.

(3) If rates and guarantee levels are not set properly, Federal cost would be even higher than the \$1.220 billion estimate. In addition, the committee questions the insurability of the 90 percent level of protection which could lead to serious rate adequacy problems.

(4) Expansion of the program to livestock and poultry as well as increases in the subsidy level would be at the discretion of the corporation, presumably without congressional approval, and could have a tremendous effect on Federal cost.

(5) If a sound insurance operation is desired and accountability is to be maintained, a separate insurance entity should be retained.

I would conclude by saying that our committee stands ready to (1) meet with anyone interested in reviewing our costing assumptions in more detail or (2) to revise our costing if the proposed program is modified. I would be happy to answer any questions you may have regarding the proposed program or our costing assumptions.

STATEMENT OF CHARLES N. FINSON, PRESIDENT, NATIONAL BANK OF MONTICELLO, MONTICELLO, ILL., REPRESENTING THE AMERICAN BANKERS ASSOCIATION

Mr. Chairman and members of the subcommittee, I am Charles N. Finson, President, National Bank of Monticello, Illinois, and Chairman of the American Bankers Association's (ABA) Agricultural Bankers Division. My bank has \$35 million in assets and is in a predominantly agricultural community of 5,000 people. The ABA's membership consists of approximately 92% of the nation's more than 14,000 full service banks. I appreciate this opportunity to present the Association's views on the issues concerning Federal disaster and crop insurance programs. Our Association is appreciative of the Chairman's and others' efforts to offer farmers a reasonable means of insuring against unforeseeable risks in agricultural production, as exemplified by S. 644, S. 646, S. 647, and S. 399.

Banks are interested in agriculture, so much so that they hold over \$33 billion of farm debts. Two-thirds of the nation's full-service banks are in communities of less than 25,000. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, nearly 60% of these community banks listed agriculture as the single most important source of income for their communities.

The Federal Crop Insurance program is based on the Agricultural Adjustment Act of 1938. This Act established, in general terms, the plan of insurance, providing the Federal Crop Insurance Corporation (FCIC) authority to insure crops against unavoidable losses. Thus, it authorized essentially "all-risk" crop insurance. Through the years, crops other than wheat, cotton, and flax have been added so that today 20 crops are covered in 1,522 counties. Nonetheless, this still leaves half of the counties in the United States and numerous crops without coverage under the program.

It is in the national interest to strive for a more stabilized agricultural output. Broad participation by producers in a crop insurance program is one important means of minimizing those risks which are beyond the control of every farmer. As bankers, we can speak most directly of the importance of insurance to the preservation of capital resources. Today the family size farm requires large capital investment and substantial amounts annually for expenses—much of which is borrowed money. Crop insurance improves the farmer's credit position because he can offer it as additional security and use it to pay off his loan if the crop fails.

We believe the present disaster and crop insurance programs, which have evolved over time, are inequitable and inadequate. We commend and support the efforts of this subcommittee to make possible a broad cost-effective crop insurance program for farmers to use in their risk management efforts. We believe the following principles should be paramount in establishing public policy for an expanded crop insurance program:

Provide for a comprehensive crop insurance program that will include broad crop and area coverage.

Provide for maximum use of the private sector (insurance companies and agents) as long as it is cost effective.

Allow for voluntary participation by farmers.

Allow premiums to be set on a sound actuarial basis and cover costs of administration.

Minimize government's role with major focus on achieving an effective transition from present multiple disaster offerings to one unified program, and to cover catastrophic losses.

Allow for the insuring of different levels of loss including out-of-pocket and machinery costs but not to cover a return on land and management or in any way to insure a profit, thereby removing the incentive to produce efficiently.

Provide for a program which determines premium rates and indemnity levels based on individual farm yields and cost experiences.

I would like to outline ABA's views within the context of the following five major areas:

1. Extent of coverage.
2. Level of coverage.
3. Consolidation of four existing federal disaster assistance programs.
4. Level of participation of the private insurance industry.
5. Federal funding and the issue of reinsurance.

1. Extent of coverage

We endorse expanded crop insurance offerings so that farmers in all areas of the country can voluntarily purchase, on a cost basis relative to the risks on their individual farms, insurance on all types of risks. However, we believe when such insurance can be offered by the private sector, the government should not interfere. This might be true in the case of hail, fire, and lightning coverage which is being extensively provided by private insurance companies. Currently, the private insurance industry writes approximately \$10 billion worth of insurance annually and collects over \$300 million in premiums on such coverage. Although we support maximum use of the private sector, our Association believes the matter of excluding hail, fire and lightning coverage from an expanded government crop insurance program needs further study in view of the potential damaging impact which such an exclusion could have on the attractiveness of a broad and comprehensive crop insurance package. Ways

might be found to utilize private underwriting and marketing of insurance to cover these risks in concert with a comprehensive government program.

The goals and aspirations reflected in the Agricultural Adjustment Act are commendable, but changes in farming practice and particularly costs of operation have created a need for a more comprehensive program. Examination of the current program covering crop losses reveals many inadequacies. First, the current law mandates that FCIC shall refuse insurance to any county, any area within a county, or even to an individual farm where the risk is assessed to be too high. Secondly, the very high cost of the premiums, in many cases, discourages participation. Such is the case, because to be covered, a crop must be of major economic value to a county and the county must not be a high risk area. Even where the insurance program is available, the coverage provided in relation to costs is not high enough to entice large numbers of farmers to participate in the program. The result is that current federal crop insurance participation covers only 13% to 17% of all eligible acres in the U.S., which might suggest farmer dissatisfaction with the program. Federal crop insurance is not available in all agricultural counties; nor does it cover all basic commodities in the counties where insurance is available.

There is general agreement that the current efforts to alleviate the impact of natural crop disasters are cumbersome, duplicative, inequitable, and ineffective. The need to expand and to modify the present crop insurance program has for some time been apparent to many interested and affected parties: farmers, insurance companies, creditors, and the public at large. Federal crop insurance has been ineffective in providing substantial relief to the agricultural economy when large scale disasters occur. It will be important, with the discontinuance of disaster assistance programs, for crop insurance to be available to all farmers.

2. Level of coverage

Consistent and widespread participation is essential for the crop insurance program to have any significant stabilizing effect on the nation's agricultural economy in the event of widespread crop failure. Although the present number of insured varies among crops, counties, and states, the program has not attained a high degree of national acceptance and participation from agricultural producers. It seems that farmers do not buy crop insurance mainly because the guarantees are too low and/or the premiums are too high. During 1974, production costs for the five crops covered by the direct payments program ranged from \$89 to \$283 an acre. FCIC's per acre guarantee for these crops ranged from 25 percent to 37 percent of total production costs.

An insurance plan offering personalized (individual farm) rates and guarantees would be more equitable because both the production guarantee and the premium could be derived from the insured's actual yield and cost history. Because such a plan would be more equitable, producer participation should increase, thus more effectively stabilizing the agricultural economy in the event of a widespread crop failure. Individual or personalized insurance is also actuarially sound. Therefore, it should have a favorable effect on the program's financial soundness.

We recommend a plan providing more personalized rates and guarantees that would be more equitable and attractive to producers and should therefore increase program participation.

The Association feels that the level of coverage should not exceed the cost of production and should take into consideration individual farm yields and yield variations. Higher levels would guarantee profits, discouraging farmers from producing efficiently. Coverage should be made available at different levels up to a maximum of out-of-pocket costs plus machinery ownership costs.

3. Consolidation of the existing disaster assistance programs

The lack of uniform natural disaster assistance has produced a series of programs. Today there are four types of disaster programs: (1) the Federal Crop Insurance Program; (2) Disaster Payments Program (DPP); (3) Emergency Loan Program of the Farmers Home Administration (FmHA); and (4) Emergency Loan Program of the Small Business Administration (SBA).

We support folding the present disaster payment and federal crop insurance programs into a unified crop insurance plan. However, we recommend against including the emergency credit programs of the FmHA and SBA at this time. There is a distinction between disaster payments and credit programs. The FmHA and SBA credit plans should be continued until a new crop insurance

scheme proves it can perform adequately in assisting farmers with crop losses.

The DPP, first implemented in 1974, is the most costly of the present programs—\$450 million annually. The program is inequitable in benefits to producers. When you consider that the benefits of the DPP apply only to those crops which are eligible for deficiency payments and price support loans (wheat, feed grains, cotton, and rice), providing subsidized insurance in addition, it hardly seems fair to the producers of other products.

The FmHA and SBA disaster loan programs have been developed to help farmers. There is some overlap in these programs, but we are working with these agencies to make these programs more effective. Hopefully, through a successful crop insurance effort the need for these credit programs will diminish. However, until it has been proven that a new comprehensive crop insurance program can satisfy the needs arising from disasters, the Association opposes their elimination.

4. Level of participation of the private insurance industry

There are more than two hundred privately owned insurance companies that are competing vigorously to satisfy certain crop insurance needs of American farmers. The Association recommends that private industry be used to the fullest possible extent in underwriting, marketing, and claim settlements for such insurance. We especially endorse the idea of making immediate maximum use of the private insurance sector in marketing since an extensive local private agency operation is already in existence. Their experience in sales and in claims administration would certainly provide an invaluable asset when used co-operatively with Government agencies. The private insurance industry's use and involvement in the program should eliminate the need for growth in the personnel requirements of federal agencies.

We suggest that the government continue discussions with the private insurance industry to design a program whereby the private sector could offer a major portion of federal crop insurance.

5. Federal funding and the issue of "Reinsurance"

Although the Association supports the concept of a privately funded comprehensive insurance program, we do not believe the insurance industry is presently prepared to do so. Therefore, we feel that the government should assume a principal role in providing an all-risk program with a long term objective of reverting to a reinsurance role once the private sector comes forth with a workable plan. We also feel it is appropriate and necessary for the government to reduce premiums using funds now employed through FCIC and the disaster assistance programs to make the insurance cost effective. This anticipates that no additional government outlays be required, and hopefully, over time, total government expenditures will be reduced. We support this approach as we believe it is in keeping with efforts to restrain government expenditures and thereby help stem inflation.

CONCLUSION

As active participants in the rural economy, we offer our continued support and cooperation. We support the development of a broad crop insurance plan, which will help reduce risk and stabilize the agricultural economy. We suggest that every effort be made to accomplish this by folding the appropriate existing disaster assistance programs into a new insurance plan and maximizing the use of the private sector.

ABA is grateful for the opportunity to express its views. We would be pleased to respond to questions.

STATEMENT OF DR. JAMES T. GRIFFITHS, REPRESENTING FLORIDA CITRUS MUTUAL, LAKELAND, FLA.

Mr. Chairman, members of the committee, ladies and gentlemen, I am Dr. James T. Griffiths. I am Director of Special Projects at Florida Citrus Mutual and I am here today representing its more than 15,500 citrus grower members. I have been associated with the Florida citrus industry since 1946 in various capacities. I am a citrus grower. I have carried crop insurance on my groves for a number of years.

I have reviewed S. 399, S. 644, S. 646, S. 647 and S. 713. I find features of Senator Huddleston's S. 647 to be quite compatible with our thinking and I also find some features in S. 713 which are desirable.

I would like to outline for you those features which we believe should be a part of a revised federal crop insurance program and I will deal in more detail with each individual item following the list.

1. There is no need to reorganize the Department of Agriculture to accommodate a new crop insurance entity. As in S. 647 the management of crop insurance should remain in the presently authorized federal crop insurance program.

2. The corporation should insure the producers of all agricultural crops, wherever they are grown commercially, at the earliest possible time. This should be offered to all farmers and should be available based on the acceptance by the farmer of the cost required to cover such insurance.

3. Provide for the subsidization by the federal government of no more than one-third of the cost of such crop insurance premiums which subsidization should cover the costs of administration and operations, information programs, studies and new insurance coverage, et cetera.

4. Eliminate all present disaster payments including ASCS "low-yield" programs, and the subsidized interest portion of the loan programs of both the Farmers Home Administration and the Small Business Administration. Such payments should not be available in any counties covered by crop insurance.

5. Insurance payments should cover up to the entire cost of production as outlined in S. 647.

6. Coverage should provide for loss against prevented planting due to flooding and possibly other causes, and should include partial or total tree loss for tree crops.

7. Reinsurance by the government of private insurance should be available whenever private industry cannot reinsure with other underwriters.

8. A sunset provision requiring reassessment of the program after five years is very desirable.

9. The financial structure of the Federal Crop Insurance Corporation does require some modification, probably as regards authorized capital stock, limitation on annual appropriations, revolving fund and borrowing authority. Some efforts should be made to permit the corporation to expand its activities on a self-liquidating basis. Specific details would have to be worked out.

10. The structuring of the corporate board and its executive director should be modified so that the board includes members who are insurance specialists as well as farmers. These persons should be appointed by the Secretary of Agriculture on a staggered term and should serve a specified term of years and not "at the discretion" of the Secretary. Similarly, the executive director should be hired by the board and should serve at their discretion only. This is comparable to a board of directors with a chief executive officer. This is the way business runs and it would improve governmental operations.

I would like to deal with some of the specifics for just a moment. Throughout my many years of experience, I have learned that reorganization in government rarely reduces employees, but rather increases layers of administrative bureaucracy. Therefore, there is simply no justification for transferring the present crop insurance program into the Commodity Credit Corporation or placing it under the authority and jurisdiction of ASCS. However, the corporation should have the authority, as expressed in Senator Huddleston's S. 647, Section 3, to contract with or transfer funds to other agencies of the USDA. This authority might well be extended to private insurance corporations as well.

Western civilization has found it essential to subsidize agriculture in one form or another. The catastrophic relief programs for farmers are a proper utilization of federal authority, but the programs overlap and should be consolidated. Whenever possible, government should create an atmosphere in which self-help makes it possible for the farmer to participate in a federal subsidy. Thus, it becomes his right only if he takes a positive step to first help himself by buying insurance. If, over a period of time, the disaster relief programs were eliminated and the federal government underwrote the full cost of catastrophic disasters, whether it be a hailstorm on wheat in Kansas or a freeze on citrus in Florida, that catastrophic loss would not affect the premium structure. If a farmer wanted insurance, he would have to buy it, but it would be at a relatively nominal rate. This would tend to persuade the farmer to buy insurance and the increased coverage should further reduce the premium cost. Claims should be low and premiums low. Perhaps policy holders of five years duration or longer should obtain some preferential treatment in the payment for catastrophic losses. This is the way to further encourage entering into and remaining in the program.

I cannot adequately discuss small grains in the mid-West, but I can talk about citrus in California, Texas and Florida. Some groves are more subject to freeze damage than others. These should carry a higher premium, but the catastrophic relief portion of the premium should be identical on all acreages of a given crop within a given geographic area. The individual premium would vary from grower to grower based on individual location.

Whenever it is possible, private insurers should be encouraged to enter the field. When both programs are available, the private insurance should, in effect, be a deductible portion of the comprehensive federal program. Thus, the federal government should insure only those additional hazards which are not covered by the private insurer. The premium should, thus, be lowered for federal insurance and administrative costs should also ultimately be lowered. Private industry should be encouraged to expand its activities.

Crop insurance should also be a function of those activities which the farmer can undertake on his own to minimize crop loss due to natural hazards. The obvious examples are drought on land which could be irrigated and freeze losses in citrus where frost protection by either wind machines or fire pots can be utilized. Thus, if a farmer is able to irrigate his land, he would be paying a reduced premium because there would be no drought insurance. Similarly, a citrus grower who installs wind machines should have a reduced cost, but, of course, he should be required to run the wind machines or the first 10 to 50% of the loss should be considered to be his responsibility and his premium reduced accordingly.

I would like to deal with some specifics on citrus in Florida which I believe are currently undesirable, but which have rather obvious remedies. I would like to commend the federal crop insurance people for their modification of losses on oranges to provide that the loss is proportional to juice loss in the orange following a freeze. This is sensible and a concept that was long overdue. It is a far more objective procedure than had previously been used. However, as a practical matter we don't really handle citrus in a way to cover production losses, per se, except when a freeze occurs in only some small portion of the state or when a hurricane occurs in only a portion of the state. In a freeze such as that of January, 1977, where almost everyone is hurt, the actual increase in fruit prices for most growers raises the value of the fruit above the cost of production loss except in those very few instances where the fruit crop was completely lost. Most frozen fruit can be salvaged and if salvaged at a new higher price, it tends to compensate the grower. If the federal government covered catastrophic losses, the 1977 losses would have been at government expense. This would have lowered grower costs, reduced premiums and encouraged new business.

I have not found it to my advantage to buy crop insurance on oranges because it was so difficult under the old system to obtain any loss at all following a freeze, but on varieties that go fresh fruit, I may have been paid too much for my losses, because although the fruit might have been rendered unsatisfactory for fresh fruit, it was salvageable for processing. The juice loss concept has helped this situation, but if our disaster losses could be covered by the federal government, overall premiums would be substantially reduced in Florida, California and Texas have somewhat different circumstances since they depend largely on the fresh market. I viewed crops in California as recently as two weeks ago where the grower will have no income at all. This was particularly true on navel oranges because they are not satisfactory for processing and can't be salvaged.

The fact that crop insurance does not provide help in the event of tree loss is unfortunate. This is the very serious thing that can happen to any producer of a tree crop, whether it be apples, peaches, almonds or citrus. When wood damage occurs, the crop loss is the greatest during the next two succeeding years. This catastrophic loss area should be covered. It is a proper area for disaster payments to be made, but they should be made only to those who will pay some premium to be covered by crop insurance. If tree losses were covered, and the disaster portion were paid for by the federal government, there would be a very substantial increase in the policies written in Florida and probably on all tree crops. Authorization for such activity should be included in any proposed law.

As a final thought, I would like to suggest that the Congress investigate an organization for underwriting insurance costs in a manner similar to the concept used to establish Production Credit Associations and Savings and Loan Associations. It seems to me this is an area of self-help in which the federal government could underwrite the initial cost and catastrophic losses on a continuing basis, but in which the farmers themselves would band together to insure

their own losses for most years. There is very reason to believe that insurance based on such a proposal would have the same success as have the farm credit associations, such as the Bank for Cooperatives, Intermediate Credit Bank and Land Bank.

I believe the changes which we suggest could be readily incorporated into either S. 647 or S. 713 and we would be pleased to offer the specific recommendations if you so desire.

Thank you for the opportunity to speak before you. I will be glad to answer your questions.

STATEMENT OF G. EDWARD SCHUH, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT, COMMITTEE ON AGRICULTURE, FEBRUARY 27, 1979

Mr. Chairman and members of the committee, I want to thank the Chairman and Members for the opportunity to open your hearings on the proposed Farm Production Protection Act. The development of a crop insurance program is a matter of major personal concern to both the President and Secretary Bergland. The Farm Production Protection Act is expected to be the major legislative initiative for agriculture by the Administration this year.

The basic legislation the Administration has proposed was introduced last year, although rather late in the session. Secretary Bergland testified at that time, as did my colleague Jim Deal, Manager of the Federal Crop Insurance Corporation. Their testimony stands as part of the legislative history, and with a small exception, I will not repeat what was said at that time. Instead, I would propose to make a few supplementary remarks that will complement what was said a year ago.

The history of disaster assistance programs for farmers and ranchers constitutes a pattern of reasonably generous and pragmatic responses to specific disaster situations. Since the 1930's the Federal government has played an important role in assisting producers to recover from losses caused by natural disasters. This participation of the public sector is appropriate, since the nature of agricultural risks are such that the private sector has been able to provide actuarially sound insurance for only a limited number of perils and under rather limited circumstances.

The fact that most disaster assistance programs have originated in response to specific disasters has given us a multiplicity of programs that have evolved in a rather piecemeal fashion. There currently are more than 20 different programs in effect. Although each of these programs may be effective in dealing with a specific problem situation, they do not represent a coherent and effective total program for providing assistance to those needing it.

The diversity in program thrust and the disparity in conditions for eligibility for benefits can be seen from a brief comparison of the four programs which provide the bulk of disaster assistance benefits available today:

1. The Federal Crop Insurance Corporation provides multiple-risk crop insurance. However, this program is available for only 26 crops of the more than 430 crops grown commercially in the United States and is available in only 1526 counties. The coverage provided from this program is effective on only 8 percent of total crop acreage. Participants in this program must pay a premium that covers all losses plus providing for a reserve.

2. The ASCS disaster payment program provides payments to producers of corn, cotton, rice, wheat, grain sorghum, and barley who suffer low yields due to natural disasters. Participants in this program pay no insurance premiums, but producers have to participate in set-aside programs in order to be eligible for benefits.

3. The Farmer's Home Administration makes available loans at preferential rates to victims of natural disasters. However, eligibility is based on a financial means test that requires that credit not be available from other sources. In effect, these loans are available only to the poorest credit risks.

4. Finally, the Small Business Administration also provides loans to farmers and ranchers, again at preferential rates. This program essentially duplicates the credit assistance provided by the FmHA.

The overlap, duplication, and inadequacies of the available programs are well-documented and widely acknowledged. Moreover, it is generally agreed that in their totality these programs are inequitable, limited in their scope, and at times rather arbitrary. Secretary Bergland, in testifying last July, noted the irony of

2,000 of the 3,000 counties in the United States having been designated disaster areas for the purpose of Farmer's Home Administration loans in 1977, even though crop production in that year was at a near record level. Paradoxically, of course, even though the program did help some farmers, many others were not eligible for the low-interest loans because they could not meet the credit tests. Still other farmers were not eligible for this type of assistance because their county was not designated for this disaster aid.

One effect of this rather ad hoc collection of programs is to encourage production where none should probably take place. In other cases, as noted above, legitimate claimants for assistance find themselves, for a variety of reasons, ineligible for sorely needed help. In short, protection against disaster may be as uncertain as disasters themselves.

American agriculture has evolved to the point where the means to handle production risks and uncertainty should logically become a part of good management practices. Greater specialization in crop production, for example, has resulted in greater financial vulnerability to crop loss. Increased use of credit as a general practice among producers has resulted in a reduced capacity for the producer himself to act as a self-insurer by drawing on unutilized credit resources in times of stress. Technological progress on the other hand, has meant both an increased degree of control over production practices, and at the same time an increased need to control financial uncertainty.

The present mosaic of disaster programs does not provide a dependable package of insurance resources to the producer. They are not compatible with the needs of today's farmer-businessman, since they do not provide a reliable managerial tool for dealing with production uncertainties.

Production insurance does not, of course, eliminate risk. It simply provides the means for managing that risk in a rational fashion. By spreading risk not only among many insuring producers but also over time, the threat of bankruptcy due to disaster-caused crop failure is removed. The producer's planning horizon is in effect extended over a longer period of time than that permitted by his own available financial reserves which, in the absence of such a program, may not enable him to weather a crop failure.

By providing a voluntary insurance program and offering the producer the opportunity to choose a level of coverage consistent with his assessment of his own risk exposure and financial situation, the program we propose provides the American farmer with a useful tool for managing the financial risk stemming from natural disasters. With this tool in hand, planting and investment decisions alike can be based to a far greater extent on rational criteria—expected costs and revenues—than on unpredictable acts of God.

In testimony a year ago Secretary Bergland specified eight insurance program principles that the Administration supports. Since these principles are still our guidelines, it may be useful to review them:

1. Existing duplicative programs should be consolidated to increase the protection available to farmers per dollar of federal expenditures.
2. The Federal subsidy should be used mainly to share premiums for the lower level of protection with the producer paying most of the premium for higher levels of protection.
3. The program should be neutral in its effect on farm size, location of production, and the commodity mix.
4. To the extent feasible, individual production histories should serve as the guide for setting levels of protection and premiums.
5. Producers should have the choice of the protection levels desired.
6. The program must be affordable for most producers and thereby encourage a high level of participation.
7. The private insurance industry should be involved to the maximum extent feasible.
8. The insurance program should be expanded to other crops and livestock as soon as practicable.

The strengths of the program provided in the bill the Administration has submitted are as follows:

1. The comprehensive nature of the program would provide assistance to disaster-struck farmers where in some cases none is now available.
2. A formal insurance program can in our judgment provide assistance for disaster relief in a form that is more useful to the farmers. With insurance, production decisions can be made with more certainty. Although the risk of disaster will remain, the uncertainty of disaster assistance will be removed.

3. The voluntary nature of the program and the range of coverage options offered provides the producer with a flexible tool for dealing with risk and uncertainty.

4. Since the program will ultimately be available to most producers, it is more equitable than present programs.

5. By consolidating a rather large number of individual programs and increasing benefits per dollar outlay of government funds, the principles of effective government are better served.

6. The cost-share principle inherent in the program is consistent with the notion that producers benefit from the program but that protection from natural disasters over which producers have little control should be provided by the government.

7. In contrast to the present system of disaster assistance, the insurance program as designed is expected to be neutral in its effect on farm size, location of production, and commodity mix.

8. The program provides for a partnership between the government and the private sector. Insurance agents will be able to work with farmers in devising the coverage that best meets their needs.

Mr. Chairman and Members of the Committee, Secretary Bergland believes it absolutely essential that together we provide the farmers of the United States with a comprehensive, meaningful, and efficient insurance plan to protect their massive economic investments in food and fiber production. We believe the bill we have introduced provides the means to that end.

STATEMENT OF JAMES D. DEAL, MANAGER, FEDERAL CROP INSURANCE CORPORATION,
BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT, HOUSE COMMITTEE
ON AGRICULTURE, FEBRUARY 27, 1979

Mr. Chairman and members of the committee, it gives me great pleasure to give testimony in favor of what I would consider landmark legislation. This legislation could be one of the more important legislative initiatives to benefit farmers in recent years.

I must commend you, Mr. Chairman and members of this committee, for your foresight in recognizing the needs of our American farmer. As all of you are aware, this is not a new subject for the Secretary. When he was Chairman of the House Subcommittee for Conservation and Credit, he was committed to an improved Federal Crop Insurance program. So it is of no surprise that many of the goals and objectives of his earlier days on that committee have carried over into the Administration's proposal.

As you know, I was appointed Manager of the Federal Crop Insurance Corporation in February of 1977 after some 20 years of working with the program. So I am not a newcomer to the business of crop insurance. And, I can tell you that my recent experience in working with Congress on a program that can be so meaningful to our farmers has been most rewarding and exciting.

Having farmed most of my life in the Midwest, I too have a firsthand knowledge of the problems faced in producing a crop. I have had my own crops wiped out and wondered how I was going to continue to meet my financial obligations.

Our farming industry has an efficiency record unparalleled in history and has made far more advances in agricultural technology than any country in the world. We should all be proud of the fact that less than 4 percent of our population can feed our nation and a large number of people abroad through our export programs. But, I can assure you that the best equipment and farming techniques in the world will not guarantee that a farmer can produce a crop each year. He is totally dependent upon the forces of nature.

Agricultural income is more variable than any other national income category. In fact, it is six times as variable as nonfarm proprietors' income, it only takes a 5 percent change in the aggregate quantity of production to cause a 25 percent change in net farm income.

I am convinced that we must direct our legislative efforts toward making it financially possible and economically worthwhile to continue producing farm products in this country. The requirements of increased farm investments, the problems of obtaining sufficient credit, unfavorable economic conditions, inflation, adverse weather, and other natural hazards and risks, as well as unstable market prices, all are threatening to take more and more of our farmers off the farm

and out of the sphere of agricultural production. It is especially difficult at a time when we are having problems with overproduction to reflect upon the fact that each year about one out of every 12 planted acres in this country never reaches harvest because the crops are destroyed by natural or uncontrollable hazards. It is in this area that we believe a strong program must be implemented to provide long-term assistance for our farmers as well as to complement provisions of the Food and Agriculture Act of 1977.

The Administration Bill, which we are supporting here today, offers a form of preventive medicine to provide greater protection to the farmer for each dollar of federal outlay. This legislation helps relieve the social stigma of giveaway programs in the past which all too often have delivered too little and too late to be of much economic value. Under the proposed legislation, the farmer pays his proportionate share. It is an approach big enough to encompass all farmers in all counties, yet small enough to give consideration to individual conditions, cropping practices and needs.

We believe this new legislation will remove most of the obstacles and answer most of the complaints that have been aired over the years under the old Federal Crop Insurance Act and disaster programs of the Department.

With your permission, I would like to use some visual aids which I think will lend themselves to a better understanding of our proposal.

As this first chart shows, we basically have seven major objectives. Some of these are far-reaching in scope, and some are merely administrative in nature.

FARM PRODUCTION PROTECTION PROGRAM **PROGRAM OBJECTIVES**

1. ALL-RISK; ALL-COUNTY; ALL-PRODUCERS
2. ESTABLISH ACTUARIAL BASE
(COVERAGES & PREMIUMS)
3. INDIVIDUAL PRODUCER COVERAGE
4. USDA COUNTY OFFICE-DELIVERY
5. COUNTY COMMITTEE ASSIST IN
ESTABLISHING INDIVIDUAL PRODUCER
COVERAGES
6. COVER MAJOR COST OF PRODUCTION
7. COST AFFORDABLE
 - A. TO FARMER
 - B. TO GOVERNMENT
 - C. TO CONSUMER

CHART 1

Item 1.—All-risk, all-county, all-producers. When we say all-risk, we are talking about any loss of production due to natural causes and certain uncontrollable

risks. The all-county and all-producer pretty well speaks for itself. Most of our current programs including Federal Crop Insurance are limited in scope as to the crops involved and the number of producers that are eligible to participate. Under the proposed legislation, it is the Department's intention to make available protection coverage on all farm products in all areas of the country and to all producers as actuarial data can be developed for each farm product. It is the Department's feeling that this will overcome some of the major obstacles encountered in the present programs.

Item 2.—Established actuarial base. In order to provide a fair and equitable program to all producers of farm products, we feel that insurance for each product covered must be established from an actuarial base. This, of course, brings up the question how much coverage should we offer to the individual producer as well as how much premium should be charged. We foresee that coverages offered under this new program will be related to cost of production and translated into the average yields for a farm. These base yields would be determined for a given period and the amount of premium charged would relate to the actual risk involved in carrying the amount of coverage that we would offer on each individual farm.

Item 3.—Individual producer coverage. It is my understanding that members of the committee have received a GAO report which supports the concept of individual producer coverages. In Item 2 we explained how to establish an actuarial base. Once this actuarial base is established the coverage will be broken down on an individual producer basis rather than simply for a large geographic area. We feel this approach will be more meaningful to each producer and, again, will overcome some of the objections to previous programs of this type.

Item 4.—USDA county delivery. In this objective we are simply proposing that our program would be delivered through the already established county USDA office system and would utilize the private insurance industry to assist in marketing. We feel it is just good, prudent, economic sense to use a system that is already in place. In addition, the use of this system is compatible with the policy and direction of the Department in relation to the one-stop service center concept for the American farmer. This means the American farmer can go to one specific location in his county and receive all the information necessary for all agricultural programs.

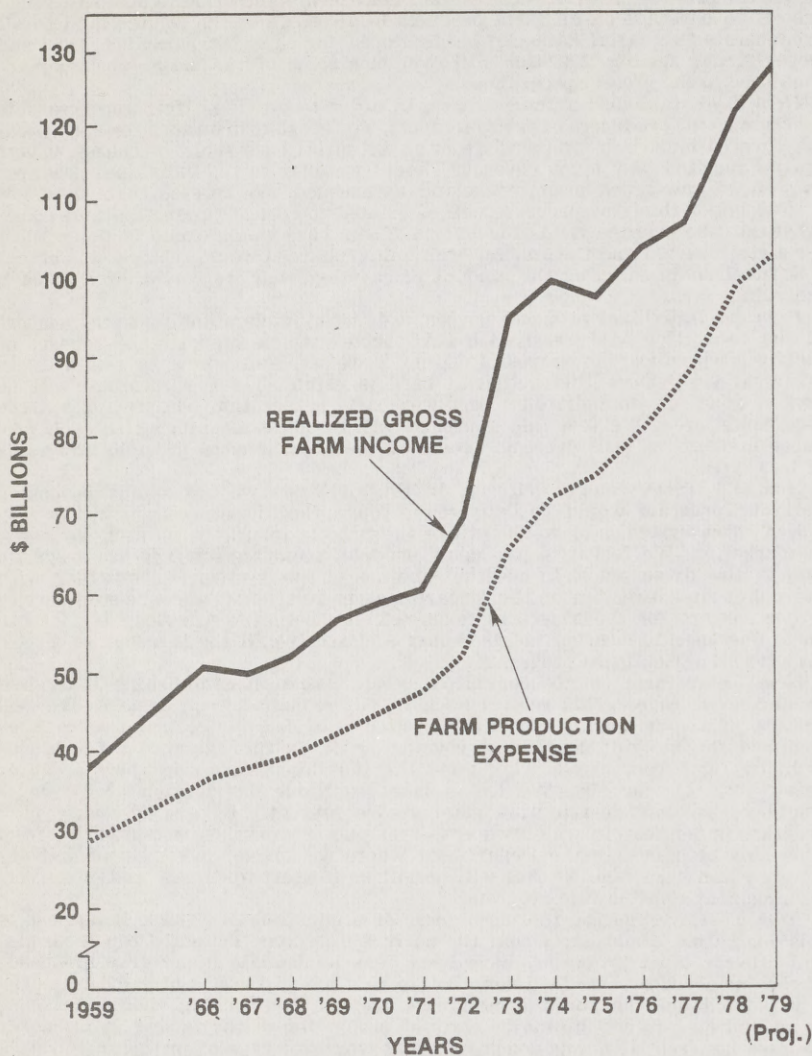
Item 5.—A farm county committee would assist in establishing individual producer coverages. This relates back to our explanation in Item 3. We feel the use of a farm county committee system is by far our best approach to accomplish the individual producer coverage goal. In this instance we would be utilizing farm committees who know the individual farms in their area far better than anyone else. We feel a more equitable distribution of coverages would be accomplished in this manner. We presently have a 20-county pilot program under way in which we are developing a workable system with ASCS. This may be a first in the Department where we develop a system of delivery by pre-planning, which we feel will permit us to start up timely and effectively to implement a nationwide program.

Item 6.—Coverage for the major cost of production. We think that most of this committee would agree that the current programs, Federal Crop Insurance and other related programs, have been very inadequate in meeting the needs of the farmer. Previous testimony before this committee has already dramatically pointed out that present programs are not far-reaching enough in scope to adequately protect the major costs of production of the farmer in the event he loses his crop. It is our conclusion that whatever type of program we establish must address itself to the major cost of production. This concept is accepted throughout rural America where agricultural councils and farm organizations as well as credit establishments have been making comments to us in dramatically pointing out the need for a protection program that relates to production losses and costs to produce.

Item 7.—Cost affordable. The cost of any new program has to be affordable in three specific areas in order to be an acceptable substitute for the current hodge podge of disaster programs. First of all, the program must be affordable to the farmer if he is going to participate to the extent necessary to make the program successful. The program costs have to be affordable to Government and, of course, the program itself has to lend itself to the benefit of the consumer.

COMPARISON

FARM INCOME VS FARM EXPENSE



Sources: Agricultural Statistics ('76)
 ESCS Ag. Outlook (Nov. '78)

CHART 2

Chart No. 2.—We have prepared a number of charts to clarify the need for and purpose of this legislation. First of all, what does the bill encompass? It relates to farm production expenses. As you can see by this chart, the cost of producing farm products was about \$100 billion in 1978 and is estimated to be about \$103 billion in 1979.

FARM EXPENSE ANALYSIS

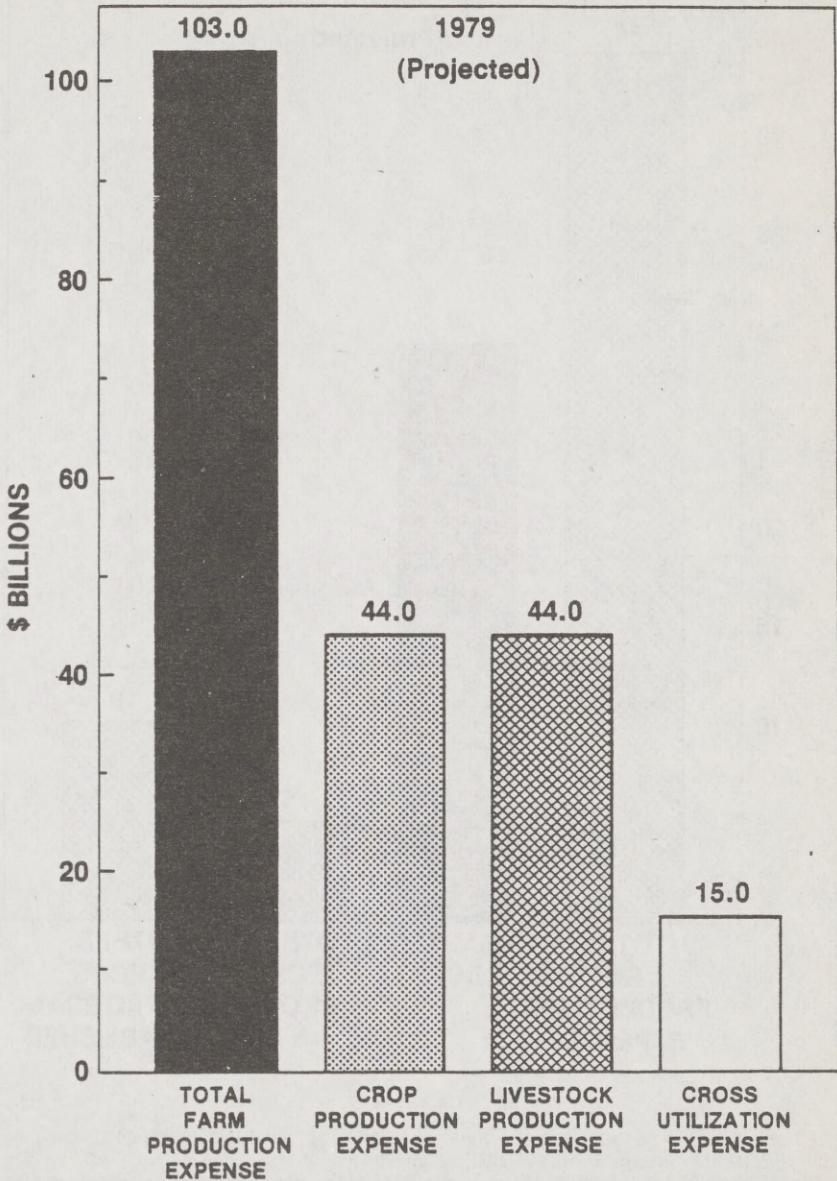


CHART 3

Chart No. 3.—Now, when we try to break down cost of production, as you can see by this chart, we can relate about \$44 billion of this \$103 billion to crop production expenses. Another \$44 billion can be related directly to livestock production expenses. And that leaves around \$15 billion that is actually unidentifiable as to where it is chargeable.

AVAILABILITY OF PROGRAMS

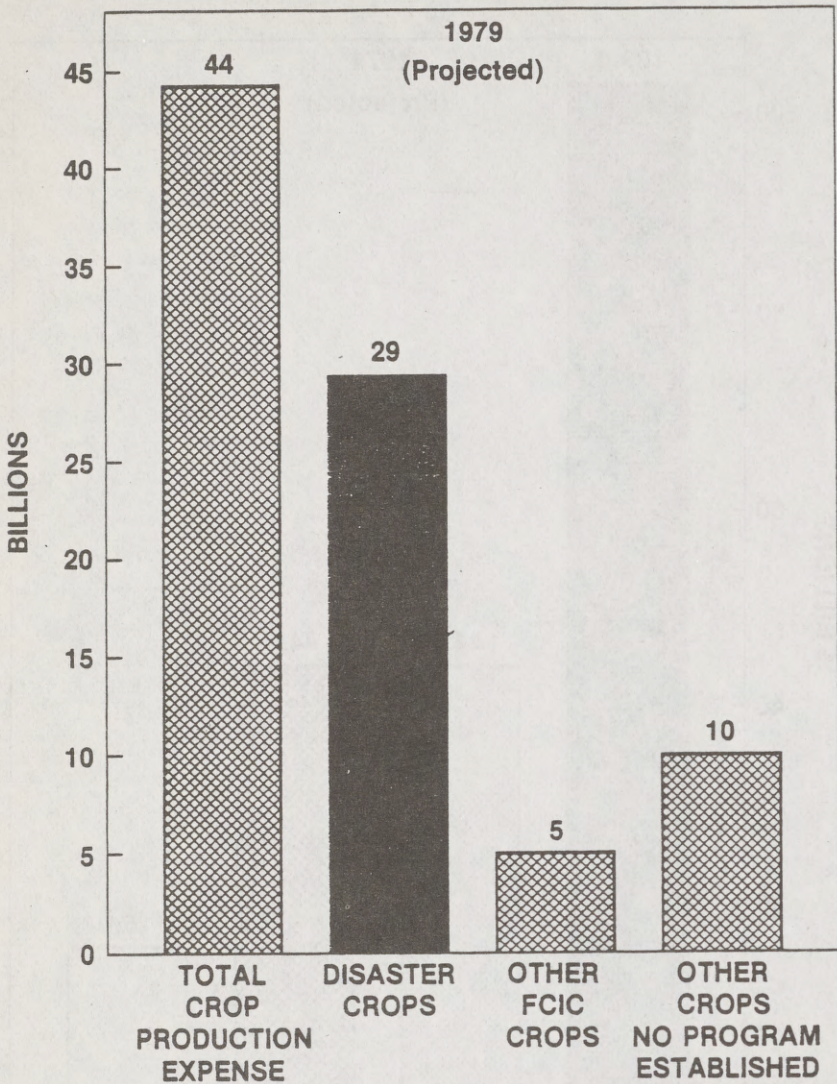


CHART 4

Chart No. 4.—So let's take a look at just crop production expenditures, or the identifiable amount of \$44 billion as shown on this chart. As you can see here, of the \$44 billion, \$29 billion is directly attributed to the six disaster crops, and about \$5 billion more is related to other crops as presently insured by Federal Crop Insurance. This leaves about \$10 billion of other crops for which we have no program established.

COST OF PRODUCTION INDIVIDUAL DISASTER CROPS

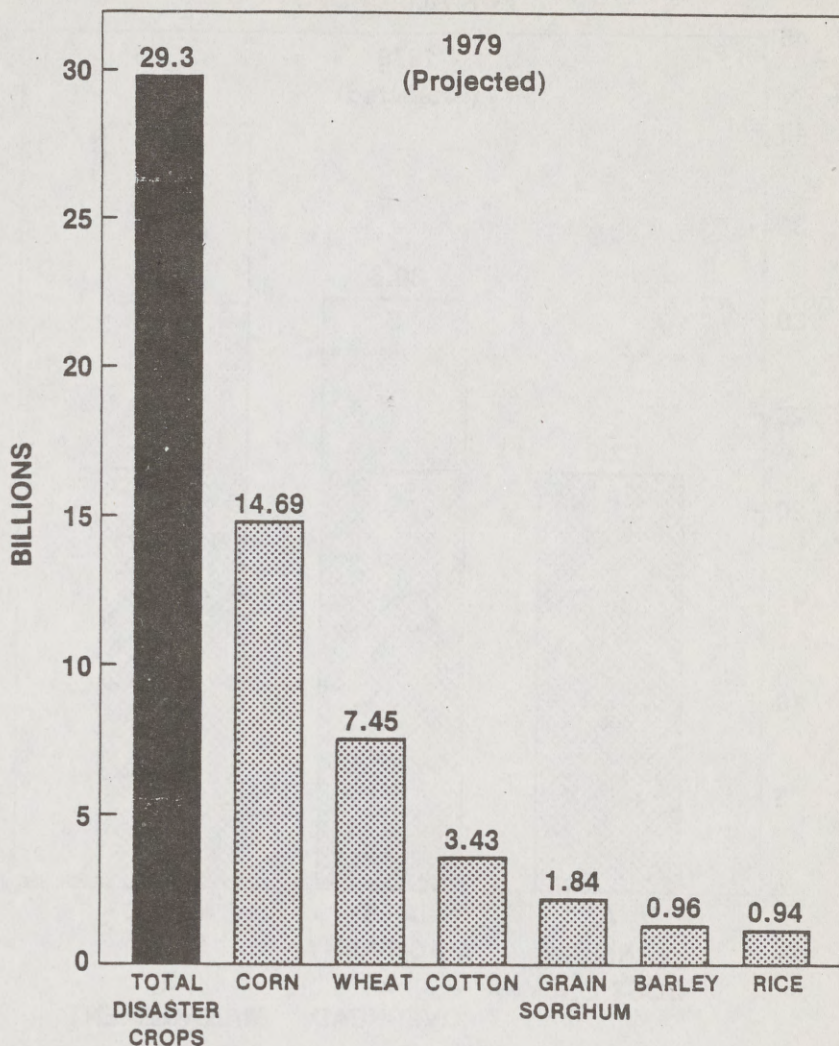


CHART 5

Chart No. 5.—This chart merely illustrates the cost of production of the six disaster crops. When we look at the total disaster crops of \$29.3 billion, we can relate \$14.69 billion to corn; \$7.45 billion to wheat; \$3.43 billion to cotton; \$1.84 billion to grain sorghum; \$960 million to barley; and \$940 million to rice.

COST OF PRODUCTION FOR ALL CROPS

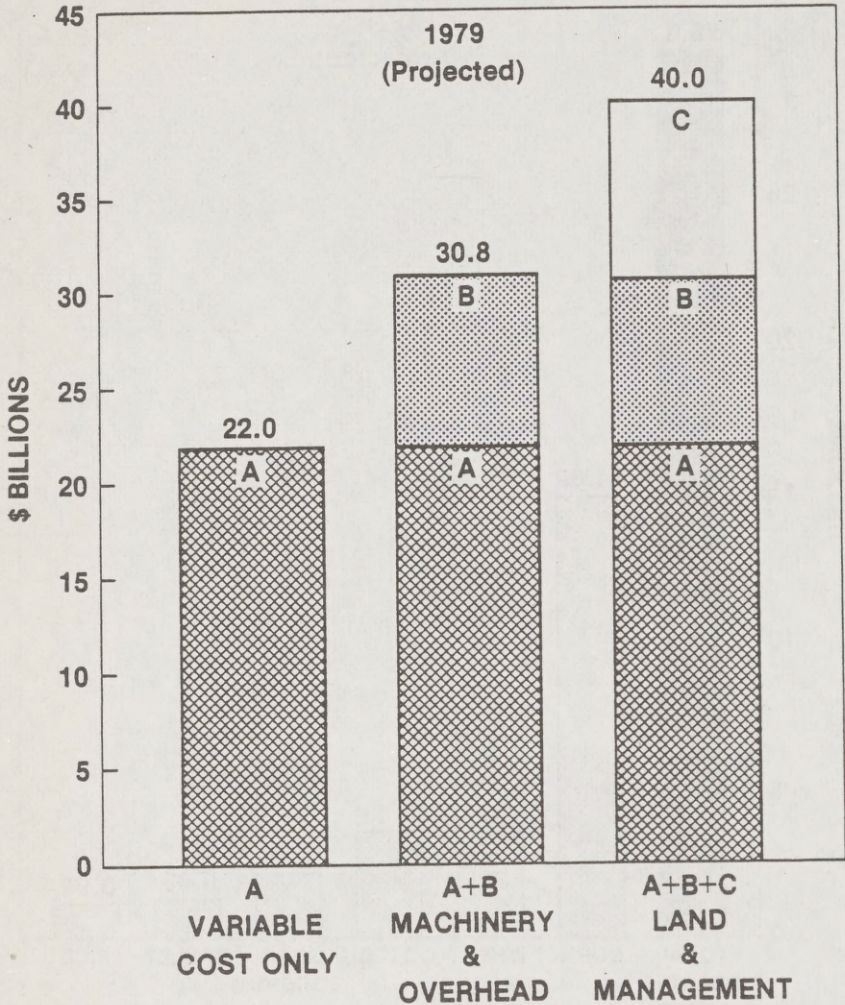


CHART 6

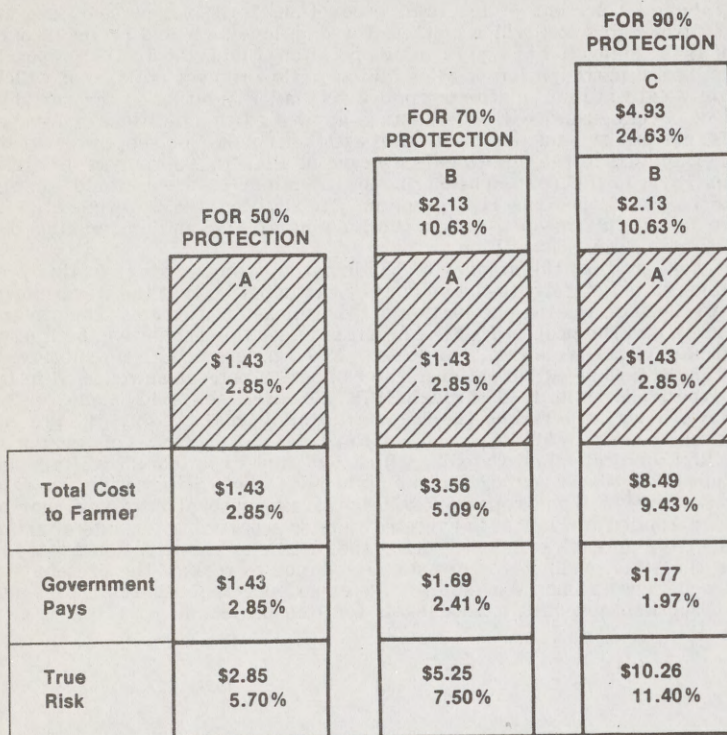
Chart No. 6.—This chart deals with the costs of production broken into three categories. Category A is variable cost such as cash output. Category B includes machinery and overhead, and Category C represents a portion of land and management cost.

As you can see, the variable costs run about \$22 billion. When we add to it over \$8 billion in machinery and overhead, it raises the cost for production for these items to \$30.8 billion. And when we apply land and management cost, and this can be figured many different ways so we are merely contributing to a portion of this, we add about another \$9 billion. This brings the cost of production back to \$40 billion which represents 90 percent of our identifiable production costs. Utilizing this chart further for a moment, this illustrates how we would see this actual program being made available to the farmer. We can

anticipate setting up the program in 3 categories for three options in which the farmer could participate. The first option would be Plan A, covering the variable cost or cash output which actually represents about 50 percent of his production. Plan B would be a plan where we would cover the variable cost of production plus machinery and overhead, as demonstrated here. This would represent about 70 percent of his total production. In our third option, or Plan C, we would cover his variable cost plus machinery and overhead plus consideration for a portion of land and management cost. And this would represent about 90 percent of his total production. It is our present idea to permit the farmer to select which of these three options he would prefer to participate in as it applies to his own farming operation. Under the USDA proposal, we use a program participation of \$459 million in Government outlays, of which approximately \$413 million of this is applied to Plan A relating to the variable cost level of coverage and with the balance applied to the additional coverage of Plan B, machinery and overhead, and with no portion of the Government contribution applied to the additional coverage of Plan C. To apply a different amount of government participation in the premium cost we would simply adjust the share of the true risk premium. In addition the government will participate in administrative costs in the amount of \$173 million making the total government share \$632 million.

We feel strongly that the amount of participation we can expect in this program will be related directly to the amount of participation that the Government is willing to consider and the elimination of other disaster programs. The present FCIC program and the proposed USDA program under this legislation, both have subsidized administrative costs. The present FCIC program with no subsidy of premiums has a farmer participation rate of about 12 percent as reflected in its program experience from 1948 through 1978. However, the study done by the Actuarial Research Corporation, points out with additional funding, the present program could penetrate 30-40 percent of the potential market. This would be \$10-\$13 billion of protection. Canada, which has vast experience with crop insurance, subsidize 50 percent of the premium and enjoys a participation rate of nearly 80 percent. The proposed USDA program, with about 90 percent of total subsidy applied to Plan A, is expected to have a participation rate of about 68 percent of the acreage which we feel is the minimum participation needed if it is to be the viable vehicle for disaster assistance to replace the present disjointed disaster programs. We believe the experience in both the FCIC and Canadian programs provides a good basis for this projection.

FARM PRODUCTION PROTECTION
COST TO FARMER
 FOR EACH \$100 OF PRODUCTION COST*



The figures shown hereon are averages and will vary by crop and area of the country.

* Program will be developed on a per acre basis.

CHART 7

Chart No. 7.—This chart has been developed from Actuarial Historical Data based on a neutral rating of premium and coverage. How would this translate into cost to the average farmer? In all three of the options that portion which is considered variable cost would cost the average farmer about \$1.43 for 50% of protection on \$100 of production costs. Under Plan B for the additional coverage for machinery and overhead, it would cost the average farmer approximately \$3.56 for 70% of protection on \$100 of production costs. Plan C, the additional land and management, would cost the average farmer \$8.49 for 90% of protection on \$100 of production costs.

Remembering that this chart is based upon costs per \$100 of production costs, we can see that the government share at the 50 percent level of coverage or Plan A is \$1.43 or the same as the producer share. As farmer participation increases, the government's proportionate share of the total premium decreases so at the 70 percent level or Plan B, the government's share is \$1.69, and at the 90 percent level or under Plan C it is \$1.77.

If we consider just the true risk involved in rating for losses—we can see these charges are \$2.85 for Level A coverage, \$5.25 for Level B coverage, and \$10.26 for the Level C coverage.

Let me further translate these costs on the average farmer into protection and costs on the individual crops. At the A program level, which covers variable or out-of-pocket costs, an average corn farmer in a higher risk area would have a coverage of about 21.5 bushels or \$45 per acre. It would cost him a premium of \$2.95 per acre or \$6.60 per \$100 of protection. An average corn farmer in the average risk area could expect a coverage of 43 bushels or \$90 per acre at a premium cost of \$2.60 per acre or \$2.90 per \$100 of protection. An average corn farmer in the lower risk area could expect a coverage of 64 bushels, or \$134.50 per acre at a cost of \$2.60 an acre or \$1.90 per \$100 of protection.

At the B program level, which covers the out-of-pocket as well as machinery and overhead, and average corn farmer at the higher risk level could expect 30 bushels or \$63 an acre coverage for a premium of \$7.40 per acre or \$11.70 per \$100 of protection. An average corn farmer in an average risk area could expect 60 bushels or \$126 an acre at a premium cost of \$6.40 an acre or \$5.10 per \$100 of protection. An average corn farmer in the lower risk area could expect a coverage of 90 bushels or \$189 an acre for a premium of \$6.50 per acre or \$3.40 per \$100 of protection.

At the C or highest program level, which covers A and B plus some land and management costs, an average corn farmer at the higher risk level could expect 38.5 bushels or \$81 an acre for a premium of \$18.50 an acre or \$22.80 per \$100 of protection. An average corn farmer in the average risk area could expect 77 bushels or \$162 an acre for a premium of \$16.05 per acre or \$9.90 per \$100 of protection. And an average corn farmer in the lower risk area could expect a coverage of 115 bushels or \$242 an acre at a premium cost of \$16.30 per acre or \$6.70 per \$100 of protection. Rather than trace each individual crop in a similar manner, I would like to submit for the record a tabulation of wheat, corn, and cotton at each of these three levels for further consideration by the committee if the Chairman has no objection.

COST OF PRODUCTION FOR 18 INITIAL CROPS

1979 (PROJECTED)

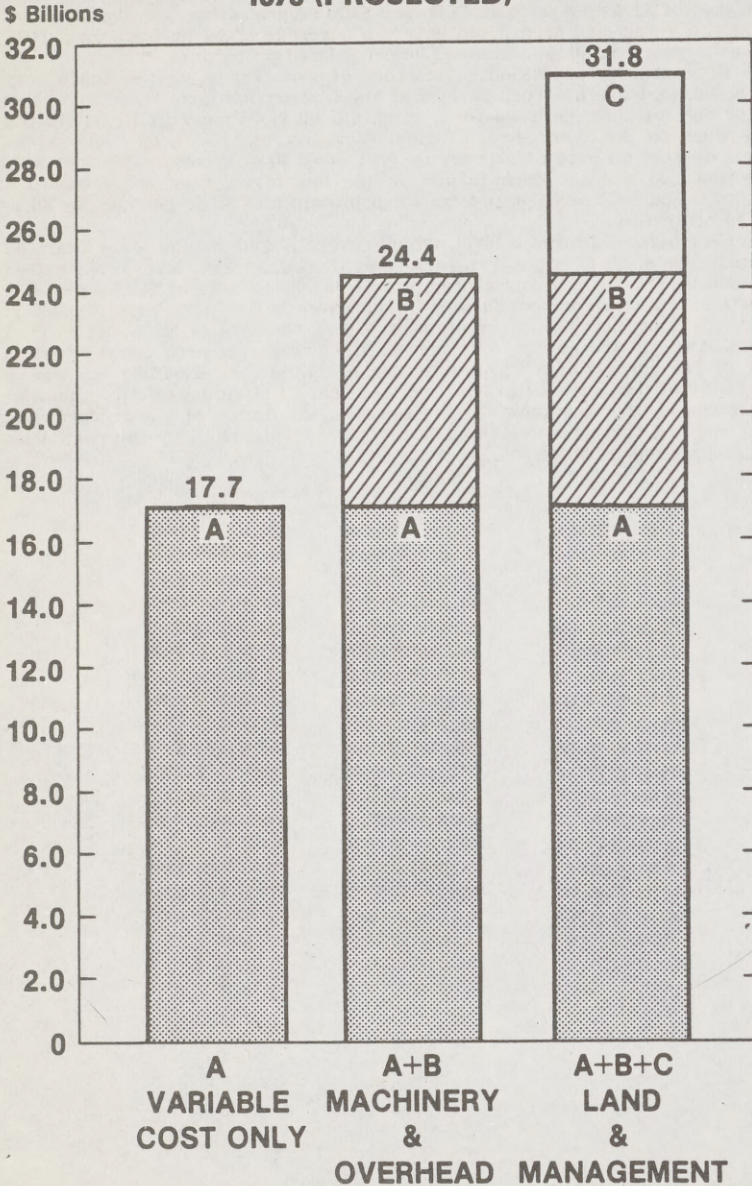


CHART 8

Chart No. 8.—This chart relates to the 18 major crops that will be included in the initial stage of the program. As you can see, the variable costs run about \$17.7 billion and when we add machinery and overhead, the cost jumps to about \$24.4 billion, and when we add a portion of the land and management costs, we have an overall production cost of about \$31.8 billion.

18 MAJOR CROPS

INCLUDED IN INITIAL THRUST OF FARM PRODUCTION PROTECTION PROGRAM

DISASTER CROPS

CORN
GRAIN SORGHUM
WHEAT
COTTON
RICE
BARLEY

OTHER CROPS

SUGAR CANE
SUNFLOWERS
CITRUS
DRY BEANS
SOYBEANS
OATS
FLAX
PEANUTS
TOBACCO
RAISINS
SUGAR BEETS
RYE

CHART 9

Chart No. 9.—This chart lists the 18 major crops we expect to cover nationwide in the initial year of the program. The six disaster crops are listed on the left and 12 other crops on the right side of the chart. All 18 are crops presently insured under the Federal Crop Insurance program. We feel there is sufficient actuarial experience with which to expand nationwide immediately on these crops. Other crops will be started on an experimental basis and rapidly developed into nationwide coverage as actuarial experience is accrued. These 18 crops are grown on 89 percent of all cropland acreage in the Nation.

FARM PRODUCTION PROTECTION VS PRESENT DISASTER PROGRAMS COSTS (Millions)

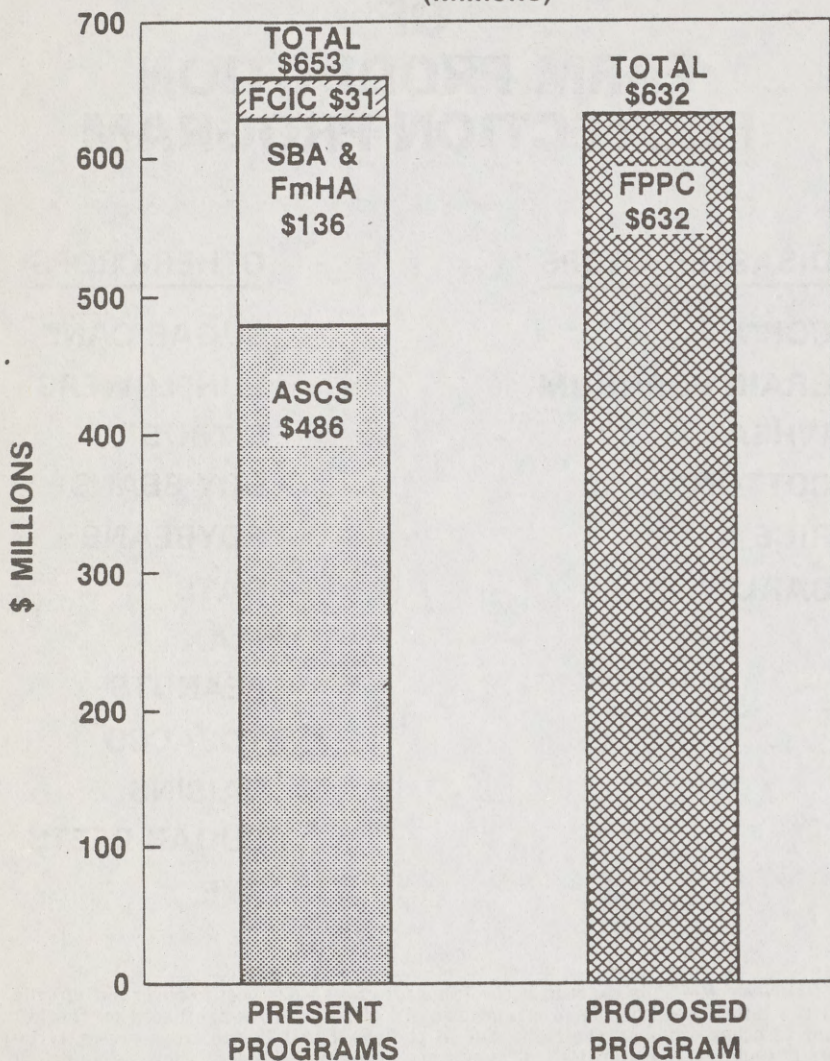


CHART 10

Chart No. 10.—This chart and the next chart are comparisons of present disaster-type programs with the new proposed plan. This chart is a cost comparison. The ASCS low-yield disaster program is costing \$486 million a year on the average, the Small Business Administration and Farmer's Home Administration subsidized interest portion of the emergency loan programs are costing about \$136 million annually and the Federal Crop Insurance program costs about \$31 million a year for a total of \$653 million. The average annual cost of the proposed Farm Production program is estimated to be \$632 million.

FARM PRODUCTION PROTECTION VS. PRESENT DISASTER PROGRAMS

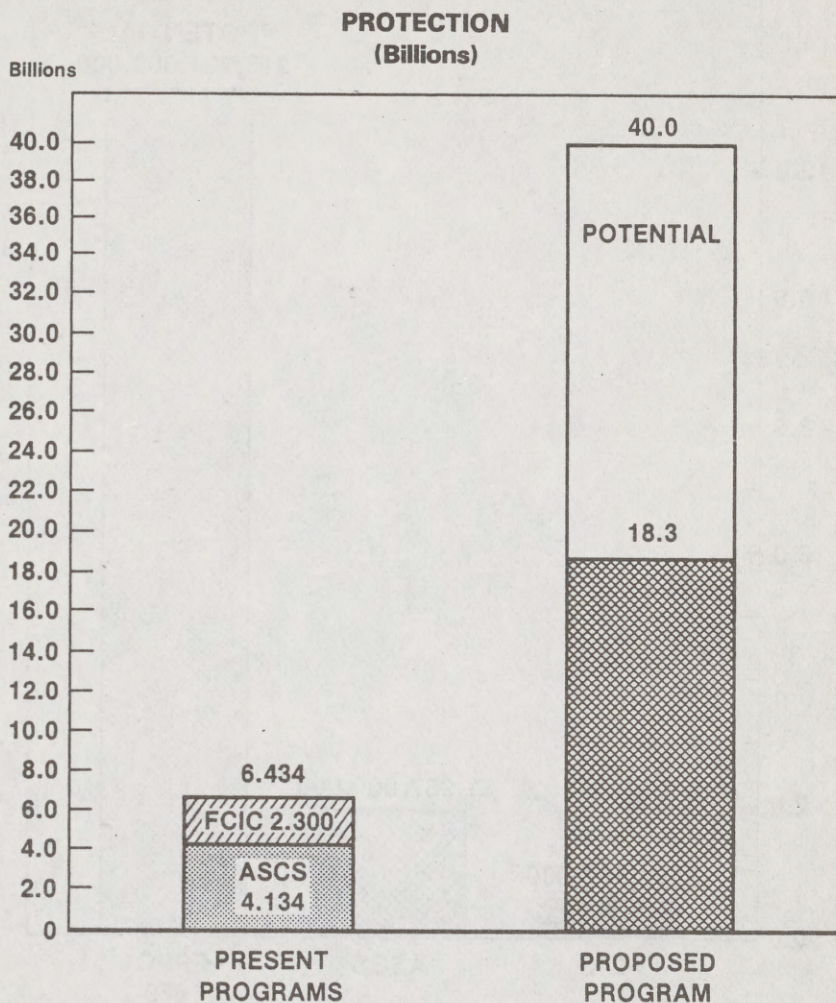


CHART 11

Chart No. 11.—Contrasted with the previous chart which showed the proposed FPP program to cost an average of \$21 million a year less than the present disaster-type programs this chart projects that the present FCIC and ASCS disaster programs now offer the farmer about \$6.4 billion in protection compared to the proposed program which is projected to show \$18.3 billion in protection to farmers, based upon estimated participation by 1983. This is more than triple the effective protection for each dollar of federal payout.

As you can see our projections for the new FPP program show a total possible crop exposure of about \$40 billion. However, we anticipate that about \$18.3 billion of this exposure will be utilized in the first years of the program based upon 68 percent participation by farmers. Depending upon which year the new program is enacted, but within a two-to-three-year period, we anticipate hitting this protection level.

COMPARISON OF PROTECTION DISASTER CROPS CORN

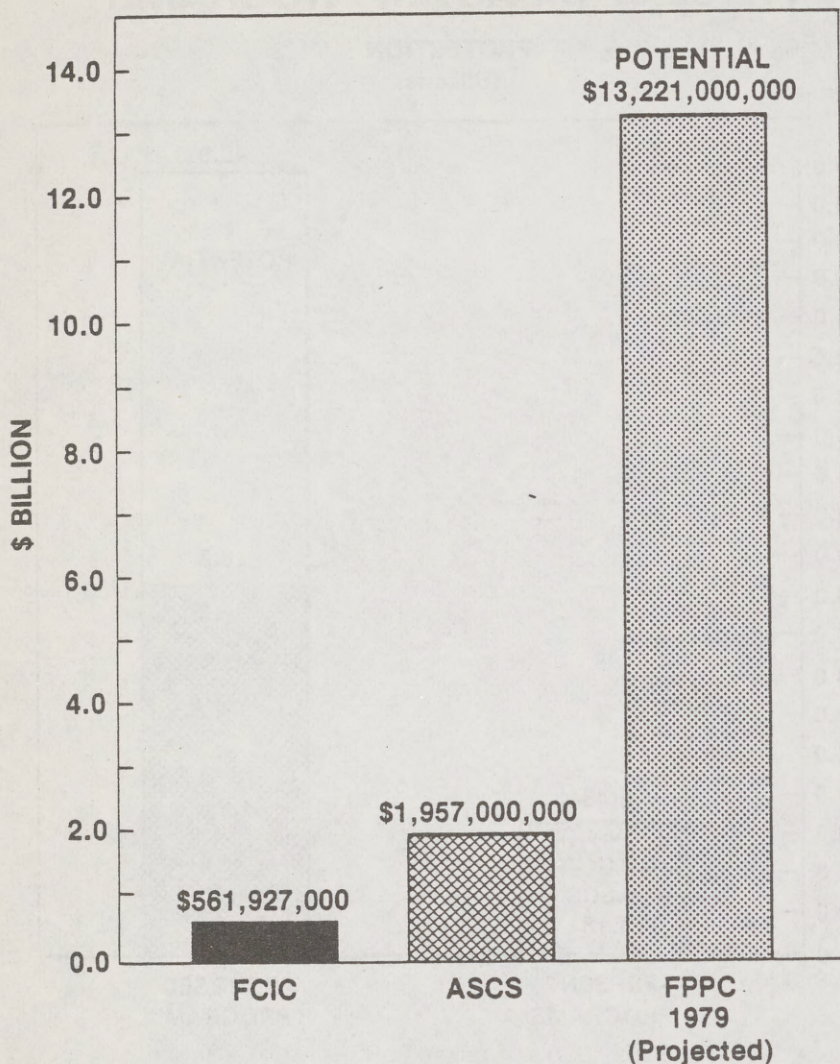


CHART 12

Chart No. 12.—Using corn as an example, this is a projected comparison of the present program versus projected protection under the new proposed legislation. As you can see in this chart, we project Federal Crop Insurance has \$562 million protected on corn while the ASCS disaster program amounted to about \$2 billion in protection. Under the new plan, we project a \$13.2 billion maximum protection level, again, at about 90 percent of production cost.

COMPARISON OF PROTECTION DISASTER CROPS WHEAT

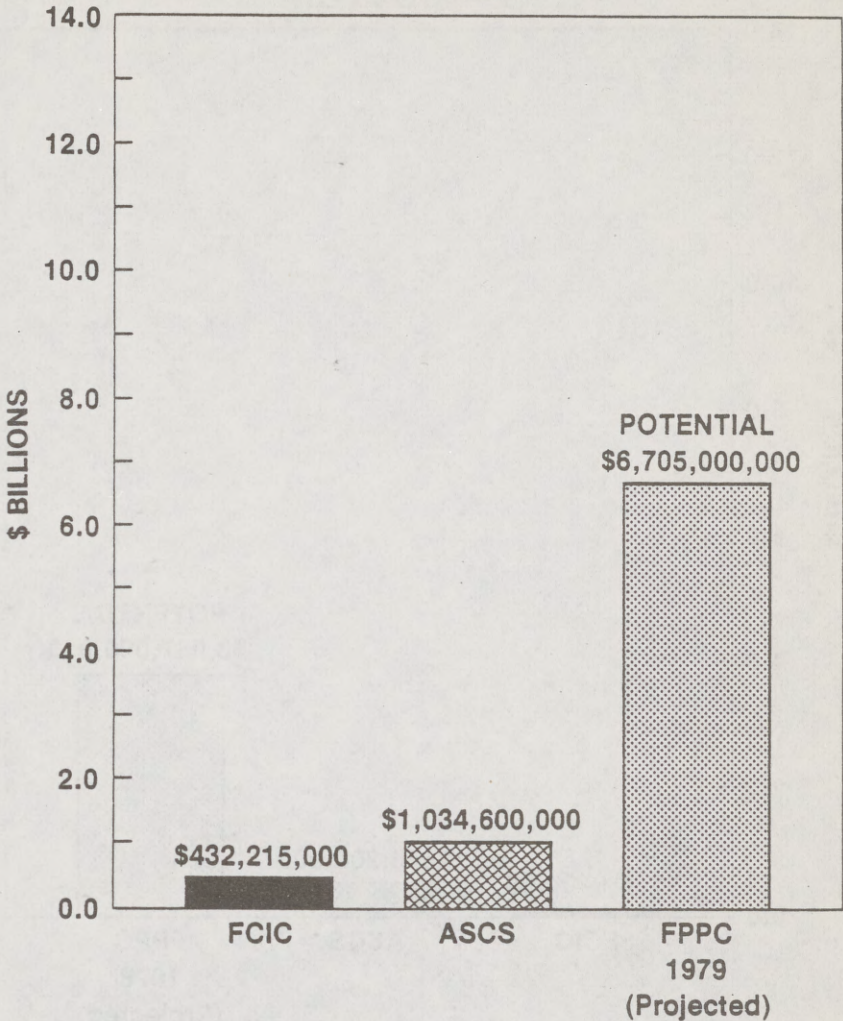


CHART 13

Chart No. 13.—This is the same comparison for wheat showing a projection for the Federal Crop program at \$432 million and a little over \$1 billion for ASCS and under the new program we would be addressing ourselves to a potential of about \$6.7 billion in protection for wheat growers.

COMPARISON OF PROTECTION DISASTER CROPS COTTON

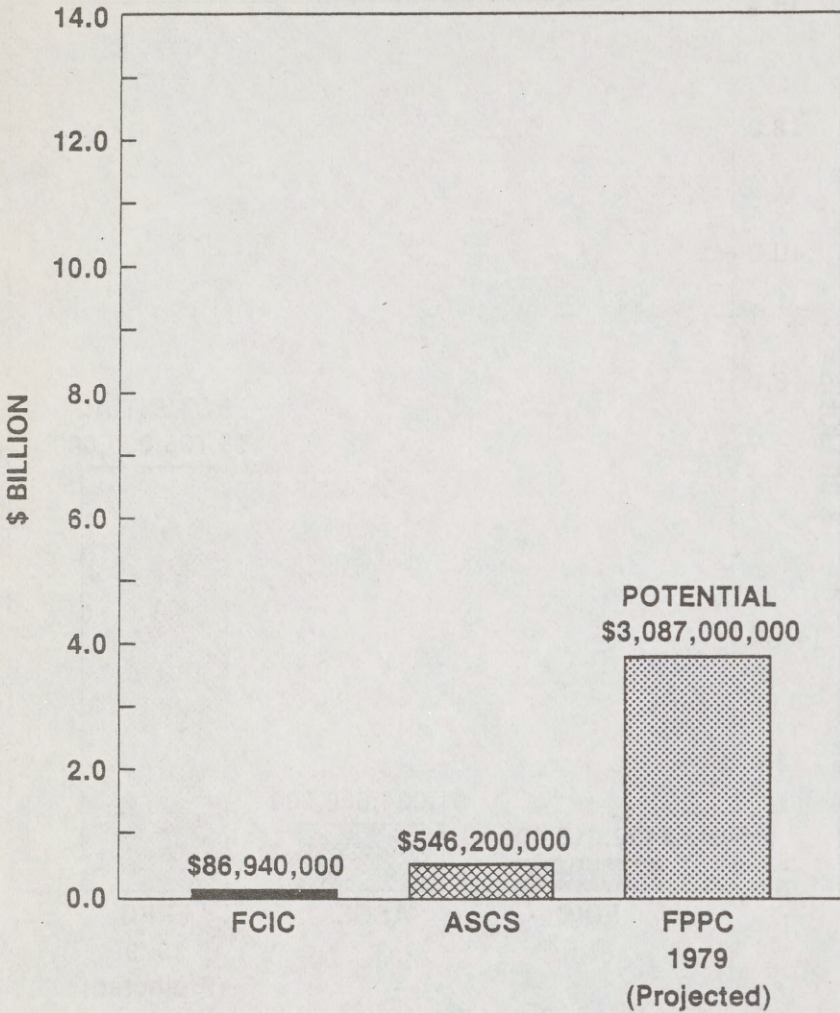


CHART 14

Chart No. 14.—One other example is cotton. On cotton we project our present protection at about \$87 million under the FCIC program while ASCS offers about \$546 million in protection. Under the present legislation the potential would be increased to about \$3 billion.

FARM PRODUCTION PROTECTION
CROP PROTECTION BY 1990
 (PROPOSED)

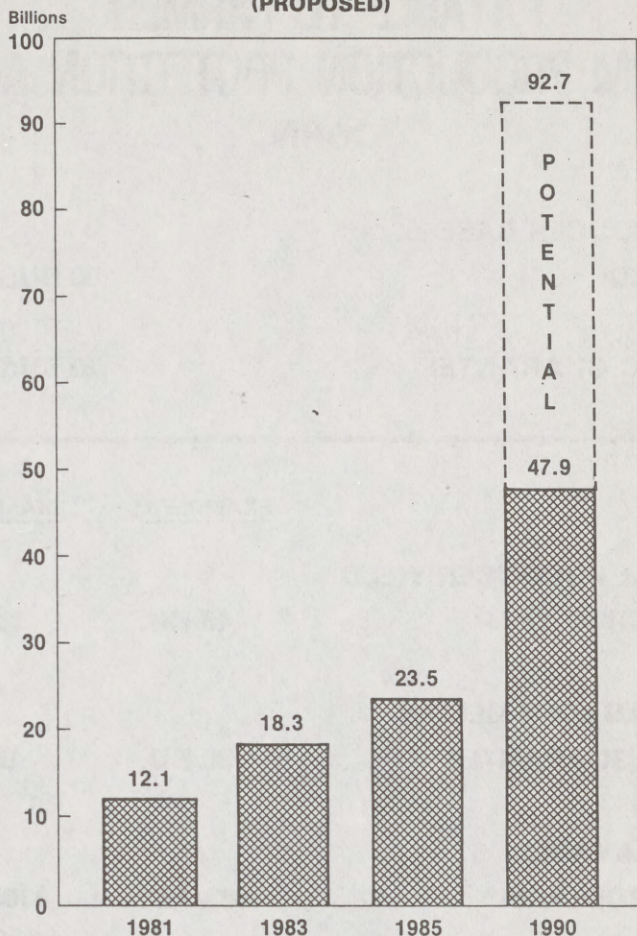


CHART 15

Chart No. 15.—In contrast, this chart relates to the proposed legislation and the Farm Production Protection Plan. Should the legislation be enacted in time, we project in 1981 about \$12.1 billion in protection to farmers. By 1983 this should increase to a projected \$18.3 billion, and by 1985, \$23.5 billion. It should be pointed out our projections of program cost for coverage beyond the \$40 billion potential, with a projected participation of \$18.3 billion of protection, would be in addition to the \$632 million program cost (estimated for the FPP program which will replace the current Disaster Program and present Federal Crop Insurance program). We estimate that by 1990 this protection could increase to \$47.9 billion, with a potential exposure of \$92.7 billion which covers all farm products providing the additional funding is made available. We are not in a position at this time to make reliable estimates of costs for this additional protection which would include livestock production; however, a rough estimate suggests that a livestock program could absorb some \$200 to \$300 million program costs when operational.

DETERMINING INDEMNITIES PAYABLE TO FARMER FARM PRODUCTION PROTECTION ACT CORN

1. PRODUCER BASE YIELD	100 BUSHELS
2. FPPC GUARANTEE	70 BUSHELS

	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
ACTUAL PRODUCER YIELD FOR CROP YEAR	40 BU.	20 BU.
BUSHELS LOST BELOW FPPC GUARANTEE	30 BU.	50 BU.
LOSS PAYABLE TO PRODUCER*	\$63/AC.	\$105/AC.

* LOSS FIGURED ON PRICE ELECTION OF \$2.10/BU. FOR
CORN MULTIPLIED BY NUMBER OF BUSHELS LOST
BELOW FPPC GUARANTEE.

CHART 16

Chart No. 16.—What we have said up to this point is all well and good, but now we get down to the question of how does the farmer get his money. This chart is a sample determination of how we would pay a loss to a farmer under the proposed legislation. First of all, we plan on establishing yield for the producer over a base period and, for the sake of this example, we have used a producer with base yield of 100 bushels on corn. We could relate the farm production guarantee in bushels at a price per bushel or unit that would reflect, but not exceed 90 percent of this producer's cost of production.

Briefly, the price per bushel or unit that I just mentioned would be established at multi-levels in addition to the coverage levels. The farmer would have the option under each level of the insurance program at valuing his production loss at varying prices per bushel or unit—in most cases three such price elections. The highest price election under each plan multiplied by the guarantee for the plan would represent the maximum protection goal of each plan, but would not exceed the 50 percent—70 percent—90 percent cost of production limits respectively. Lesser price elections would be available for the individual who wants to self-insure a portion of his loss.

In this example, we have used 70 bushels, or Plan B representing 70 percent of the farmers' base yield which approximates a major share of his costs of production. Below, you have two examples which would explain how the program would work for the farmer. In example 1, if the producer had a 40-bushel yield, this would mean he would have a loss of 30-bushels, which is simply the 40 bushels subtracted from his 70-bushel guarantee. Depending upon the price he selects to be paid for his loss, and in this example we have used \$2.10 a bushel price on corn, the producer's loss would be merely the number of bushels short of his guarantee or 30 bushels times the price per bushel selected, which equals \$63 per acre loss. Example 2 merely shows his yield for the year at 20 bushels so that he has a 50-bushel loss. This 50 bushels times the \$2.10 per bushel gives a loss of \$105 per acre.

**DETERMINING INDEMNITIES
PAYABLE TO FARMER
FARM PRODUCTION PROTECTION
ACT
WHEAT**

1. PRODUCER BASE YIELD	28 BUSHEL
2. FPPC GUARANTEE	20 BUSHEL

	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
ACTUAL PRODUCER YIELD FOR CROP YEAR	6 BU.	12 BU.
BUSHEL LOST BELOW FPPC GUARANTEE	14 BU.	8 BU.
LOSS PAYABLE TO PRODUCER *	\$47.60/AC.	\$27.20/AC.

* LOSS FIGURED ON PRICE ELECTION OF \$3.40/BU. FOR
WHEAT MULTIPLIED BY NUMBER OF BUSHEL LOST
BELOW FPPC GUARANTEE.

CHART 17

Chart No. 17.—This is a similar chart for a wheat producer. Given a guarantee of 20 bushels you can see in example 1 he has lost 14 bushels multiplied by \$3.40 a bushel for a loss of \$47.60 an acre. In example 2, with an 8-bushel loss this works out to a loss of \$27.20 an acre.

DETERMINING INDEMNITIES PAYABLE TO FARMER FARM PRODUCTION PROTECTION ACT COTTON

1. PRODUCER BASE YIELD	600 POUNDS
2. FPPC GUARANTEE	420 POUNDS

	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
ACTUAL PRODUCER YIELD FOR CROP YEAR	100 LBS.	250 LBS.
POUNDS LOST BELOW FPPC GUARANTEE	320 LBS.	170 LBS.
LOSS PAYABLE TO PRODUCER*	\$166.40/AC.	\$88.40/AC.

*LOSS FIGURED ON PRICE ELECTION OF \$.52/LB. FOR
COTTON MULTIPLIED BY NUMBER OF POUNDS LOST
BELOW FPPC GUARANTEE.

CHART 18

Chart No. 18.—This chart shows a cotton producer with a guarantee of 420 pounds to the acre. In example 1 he produced 100 pounds and lost 320 pounds below the guarantee for a loss of \$166.20 an acre. In example 2 he only lost 170 pounds below the guarantee for a loss of \$88.40 an acre using a price election of 52 cents per pound.

FARM PRODUCTION PROTECTION VS. DISASTER PAYMENT PROGRAM

Percent of Cost
of Production

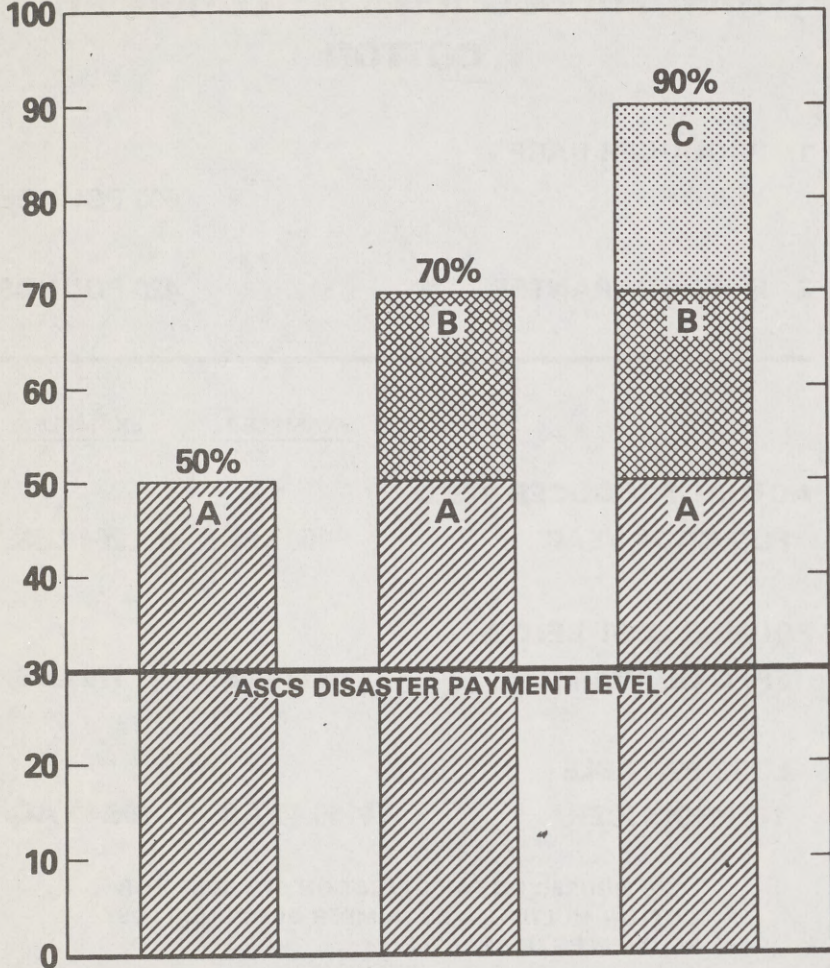


CHART 19

Chart No. 19.—Nothing of the scope envisioned by this legislation has before been available to the American farmer. Our most predominate disaster program, the ASCS low-yield payment program, is estimated on a nationwide, six-crop basis to protect about 30 percent of a farmer's production costs as shown on this chart. As you can see, the minimum goal for our new program is to protect 50 percent of this production cost and to make this program available not just on six major crops, but on 18 major crops in the first year, and to all producers in all counties.

Besides crop programs, this legislation has the versatility to provide protection on such limited risk programs as preventive planting, honeybee indemnity,

wildlife depredation, aquaculture, pest-specific risk, and others. It should be pointed out that in the limited risk plans, we do not intend to duplicate any programs that industry already is adequately covering. It could also encompass diversified farm products in such areas as livestock and poultry, tame hay and pasture, fruits and nuts, vegetables, milk production, nursery stocks, forests and tree farms.

This legislation would permit the channeling of immediate disaster aid in the form of indemnity payments and, as you can see by the chart, in sufficient quantity to areas which have sustained production losses. My experience in farming and Federal Crop Insurance has taught me that the most serious economic impact resulting from natural conditions which destroy crops comes mostly from the repeated occurrence of these conditions or natural conditions coupled with unfavorable economic prices. Besides the replacement of the current mix of Federal Disaster programs, the distribution of indemnities under this legislation will have important impact upon maintaining the income level of farm families and their ability to produce our supply of food and fiber.

So, I would conclude by saying that we have a golden opportunity to do something not only good for the American farmer, but of lasting benefit to the American people. I hope that my presentation has been helpful to this committee in making a determination. I would be happy to answer any questions you may have as to the Administration's position or how we see this program operating within the Department.

STATEMENT OF WOODROW HART, SOUTH TEXAS COTTON & GRAIN ASSOCIATION, INC.,
VICTORIA, TEX.

My name is Woodrow Hart, I am Executive Director of South Texas Cotton and Grain Association located in Victoria, Texas. Our Association represents approximately 7,500 cotton and grain producers in South Central and the Coastal Bend regions of Texas.

The membership of South Texas Cotton and Grain Association express their deep concern over what has developed to be a tendency to reduce agricultural research appropriations and cotton research funding, in particular. Our membership recognizes the extreme importance research has played in the evolution of an increasingly sophisticated, highly productive agriculture.

Technology and production innovations in the cotton industry have allowed for expanded cotton production in all of South Texas. Several years ago cotton plantings and production began to dwindle in the Coastal Bend area of the State. Had it not been for extensive and exhaustive research, the cotton industry in South Texas that we know today, would not exist.

Technological change, in any industry, is a fundamental need that must be fulfilled in order to allow for economic growth. It is not by chance, but by absolute necessity that the cotton industry must continue to expand. The industry is comprised of almost 100,000 businesses and provides employment for over one-half million workers. In all, almost 17 billion dollars in products and services is generated by the industry.

A fundamental characteristic of technological change is the permitting of maximum production from a set of fixed resources. Research and development have provided producers with the means necessary to be highly productive and efficient. In addition, cotton is a renewable resource and its production consumes considerably less energy than does its synthetic competition.

Cotton research must not be allowed to become static, but must be progressive and dynamic. Cotton producers are constantly plagued by a wide array of production problems ranging from plant genetics to insect adaptation. The industry, in general, is concerned with end product production efficiency, energy conservation, and rigid government regulation, to name a few.

Agriculture, including the cotton industry, has traditionally looked to the federal government for aid in financing valuable research endeavors. There is no question about it, federal research dollars cost the American taxpayer. Agriculture research, however, has returned the taxpayers' investment many times over by maintaining a reasonable cost for food and fiber. Raw cotton exports tallied near 1.7 billion dollars in the last fiscal year, thus allowing for a reduction in the nation's trade deficit. The cotton industry provides consumers with fiber, at a reasonable cost, that is both dependable and durable. In addition, cotton contributes to a more equalized agriculture, thus allowing for reasonable prices not only for fiber, but also food.

Research is directly responsible for development of early maturing cotton varieties that have been beneficial for use in the Coastal Bend region of Texas. In addition, research has contributed considerably to development of increased insect resistant strains of cotton. The coupling of early maturation with insect resistance undoubtedly reduces the cost of production for the cotton crop. It is possible to attain a high production potential with decreased chemical insecticide application, an action that is certain to win Environmental Protection Agency support. Research, then, has supplied the farmer with lowered cost of production and the American population with a cleaner environment.

Over the past several years the cotton industry has become increasingly alarmed over research funding cuts. Although the producer has accomplished much through his support of Cotton Incorporated, continued governmental research appropriations are drastically needed. The cotton producer, incidentally, through his support of Cotton Incorporated, has shown the government and the American people that he believes in his product and is willing to contribute his fair share to its further development and economic expansion.

President Carter's 1980 budget cuts deeply into USDA agriculture research appropriations. One half the total reduction, \$1,647,000, is taken from cotton and cottonseed research funds. This reduction in funding would significantly curtail valuable research in the cotton industry. In addition, unharnessed inflation has seriously crippled research in all major areas.

Agriculture has been, is, and will continue to be America's number one industry; significantly contributing to the national welfare and economy. Cotton, as an integral part of Agriculture, must continue to be considered as high priority. Congress, itself, through Title XIV of the 1977 Farm Act, recognizes cotton and agriculture research as high priority and thus should be concerned with its further development and expansion.

South Texas Cotton and Grain Association hopes that Congress will see fit to restore cotton research funding. The Association membership recognizes the need to reduce governmental costs and the need to curb inflation. The Association feels, however, that the national economy and interest demands continued governmental support.

On behalf of the membership of South Texas Cotton and Grain Association, I would like to express my sincere appreciation for being allowed to express our opinions. Thank you.

STATEMENT OF WILLIAM F. MCFARLANE, PRESIDENT, WESTERN COTTON GROWERS ASSOCIATION, REPRESENTING THE COTTON FARMERS OF CALIFORNIA

Mr. Chairman: It is obvious the disaster payment program in the Agriculture Act of 1977 is not sufficient for farms that suffer major crop loss at a time when costs of production have increased so dramatically. Farmers do need available an all risk crop insurance program they can use if desired.

California farmers use crop insurance to a high degree in raisins, where there is a competitive insurance offering. This insurance is also offered by the Federal Crop Insurance Corporation (FCIC), without subsidy. As in tobacco, peanuts, and in some counties where corn is insured, these situations exhibit a high rate of participation. Apparently a majority of the farmers have decided they want and can afford the program without subsidization.

The cotton farmers of California would like a realistic program offered for low risk farms that require minimum coverage, therefore, having an attractive premium without subsidy. Since FCIC is considering reducing the premium in low risk areas by as much as 45 to 50 percent, this would make the premiums for minimum coverage feasible for the cotton farmer of California. We should have a crop insurance program which will subsidize the high risk premiums to the degree that it would be a realistic alternative to disaster payments. If the low risk premium can be reduced as FCIC is suggesting, then the farmer of California would participate without federal subsidization. He would also understand that where the risk is higher the need for a subsidization with the percentage of subsidy increasing as the risk increases. This certainly would give all farmers a realistic alternative, with a higher dollar protection, to the present disaster program.

I do not believe the cotton industry should or can back a bill that is modeled after the Canadian program. We do not need or want government to be involved to the degree it is in farming in Canada. It is the wrong approach to subsidize all premiums so that participation will be high. Participation should be governed

by the actual individual need. Each cotton farm should be evaluated on individual actuarial history. The ASCS county offices have five-to-ten year records, and these could be utilized to compute the actual risk involved farm by farm. The requirement to use these should be made a part of the law.

It should be a goal to reduce Federal expense immediately possibly by as much as one-half and this goal could be attainable. The administration bill, as it now stands, still has the social stigma of a give-away program. Our dollar is in trouble; one of the most important reasons is, to quote from the Wall Street Journal of August 9, 1978; "This decline of the dollar was made in the United States by U.S. policies and only U.S. policies can arrest it. A quarter of a century of government deficits financed by creating money and credit inevitably lowered the value of the dollar not only at home but everywhere." So why create a further service that continues the one-half billion deficit—Let's cut it! The law should be fashioned after the Farm Credit Law where eventually it can become a private farmer owned insurance business.

If an all out effort is made, by Congress, to replace disaster payments with the crop insurance program and this is defeated then Western Cotton Growers would reluctantly ask for an extension of the disaster payment program.

STATEMENT OF ELBERT HARP, EXECUTIVE DIRECTOR, GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. Chairman and Members of the Committee: I am pleased to have the opportunity of presenting the views of Grain Sorghum Producers Association concerning "All-Risk Farm Insurance Program and Disaster Programs." The membership of GSPA is spread throughout the sorghum production area of the United States.

Grain sorghum farmers are pleased to know that Congress and U.S. Department of Agriculture are considering a new crop insurance program that would help remove some of the tremendous financial risks that they face each year, as a result of weather, insects, disease, and other factors that destroy crops. Probably no other industry is plagued with so many risks in addition to highly variable prices for their products. GSPA believes the time has come for the development of an insurance program that covers all the risks of agricultural production.

GSPA recommends that the current disaster program be continued for the duration of the current farm bill. Since the disaster provisions expire with the 1978 crop year, it will be almost impossible to implement a new Federal All Risk Insurance Program in time to take effect before its expiration. These programs should be extended until an all-inclusive crop insurance program is in full operation.

Grain Sorghum Producers Association supports the basic provisions of the "Farm Production Protection Act of 1978" that was introduced last year by USDA. The bill introduced was S. 3029 and H.R. 12636. There are several points of concern that we feel should be more specific in any law passed by Congress than is proposed in S. 3029 and H.R. 12636.

First, GSPA wants grain sorghum added to the list that is covered by the legislation. The USDA bill does not include grain sorghum as one of the named crops. The intent of USDA to cover sorghum is explained in their comments. We believe it should be listed in the Act itself.

GSPA further recommends that any new Federal Crop Insurance Program include:

1. Coverage for all crop losses such as hail, rain, drought, sand, wind, and other weather-related forces, and should also cover losses from insects, diseases, and other losses that are beyond the control of a farmer. We, of course, believe that the land should be farmed in a good farmer-like manner.
2. Administration through the ASCA offices instead of establishing a separate agency.
3. Provisions for allowing each producer to provide records of proof in establishing his own proven yields for each farm and that these yields should be the basis of the amount of coverage that each farm is eligible to receive.
4. Separate coverage for each farm owned or operated by a farmer and separation of coverage and protection between dryland and irrigated land on each farm.

5. Provisions that separate availability of the insurance program from the participation in other farm programs.

6. Farmer options of coverage levels of 0, 50 percent, 75 percent, and 90 percent of normal farm yields with government paying a minimum of 50 percent of the premium on the first 50 percent of protection.

7. Procedures for establishing the cost of production for crops at the full tenants' cost of production (excluding land) divided by his average share of the crop and the crop rent would be the payment for the land.

8. The farmer's maximum crop insurance premium as a part of his cost of production.

9. Administration cost of Federal Crop Insurance program to be paid by the government.

10. Language to allow each farm to stand alone in establishing normal farm yields and risk ratings (the more efficient or productive farmers should not be penalized by their less efficient neighbors).

Grain Sorghum Producers Association recommends early passage and implementation of the Administration's "Farm Product Act" provided the provisions listed above are carefully spelled out in the law.

We will be available to work with your committee as you develop this program any time we can be of assistance.

Thank you for the opportunity of presenting this testimony.

STATEMENT OF LYLE BAUER, PRESIDENT, NATIONAL ASSOCIATION OF
CONSERVATION DISTRICTS

Mr. Chairman. Members of the committee. I am Lyle Bauer of Harper, Kansas, President of the National Association of Conservation Districts. NACD, as we are commonly known, represents the nation's 2,950 conservation districts, the 50 state associations of conservation districts, and the 17,000 conservation district officials that serve them.

The conservation of America's land and water is dependent on the ability of private citizens to economically carry out and maintain operations. In plain economic terms, most farmers today can't afford conservation. If the national government wants to encourage improved soil and water conservation, it will have to direct the economic pressures in public programs so that they encourage the efforts of private citizens.

A major concern of NACD is the prevailing tendency of many agricultural programs to operate in ways that discourage the maintenance of proper soil and water management systems on private lands. These programs, while aimed at laudible goals that are often far removed from soil conservation, end up having unintended, by nonetheless real, negative effects on the way in which land is used and treated.

We are pleased to have the opportunity to present our views on the crop insurance program and its relationship to conservation. Rather than spend time discussing the past, we would like to concentrate on what we see as opportunities for the future. Let us start with some general principles.

1. NACD believes that every possible Federal program—and certainly those of USDA—should provide encouragement and incentives for proper use and conservation of private lands. As we work toward this goal, the amount of incentive in each program need not be great, for the total effect of all programs will affect the landowner and encourage conservation.

2. We believe that the existence of a conservation system on the land should earn the landowner an incentive, but should not be a requirement for program participation. Incentive levels in programs will help move people toward conservation accomplishments. This will increase the workload for the programs that deliver conservation services, but at a realistic pace that will result in effective conservation on the land.

If major national programs suddenly required all participants to install conservation systems, our capability to help landowners install conservation work would be swamped. Farmers and ranchers would then have legitimate reason to call the requirements unreasonable, and get them removed. Little would be gained, except the further alienation of rural people against government and its ability to cope with problems.

3. We believe that there should be a distinction between the agencies that administer federal programs and the agency that measures the adequacy of

conservation systems. We believe it has been, and continues to be, a conflict of interest for agencies administering farm programs to attempt to judge the conservation value of various practices applied to the land. In such a conflict, the conservation ethic is too often put aside in favor of administrative expediency or political consideration, and conservation goals are lost.

We would like now to provide some specific ideas as to how these general principles can be worked into the Crop Insurance program.

1. CERTIFICATION OF CONSERVATION SYSTEMS

The adequacy of a farmer's conservation system should be determined by the local conservation district, using technical guidelines established by the Soil Conservation Service. This takes advantage of the legal status of conservation districts under state law, while utilizing USDA's soil and water conservation agency to assure that national standards are met.

Conservation districts are the unit of government established in America to deal with the adequacy of local conservation programs. They can respond to the different situations encountered in our diverse nation. They serve as the local conservation decisionmaking body. They are responsible to all of the people in the district, and their actions are guided by state law. To protect against arbitrary local decisions, there are 50 state soil and water conservation agencies empowered under state legislation to act as appeal boards.

The conservation district can issue a certificate to each landowner who has installed and is maintaining a conservation system on his land, or is making satisfactory progress toward implementation of a planned system that must be installed in stages. This certification can be used for many programs. The same conservation system that might earn a farmer an incentive in the crop insurance program could also be applied for tax purposes or to demonstrate adequate control of nonpoint source pollution.

2. INCENTIVES

An appropriate way to work conservation incentives in the crop insurance program would be to provide a rate break or rebate for the person with a conservation certificate from the conservation district. In this way, USDA could utilize actuarial approaches to establish appropriate insurance rates, then provide a discount (at a level to be established by Congress) for farmers who have a sound conservation program. This would be like the "safe driver" discount offered in automobile insurance, and would be based on the same premise. Conservation farmers manage their land, water and crops in ways that make them more resistant to damage or loss due to climatic aberrations. We have no idea at this point to calculate how much their premiums should be reduced to maintain actuarial soundness, but feel it is logical for the Congress to establish a percentage rebate and let experience with losses over the first few years of the program provide us with the necessary facts for later adjustment if needed. We would suggest, as a start, that conservation farmers get a 10 percent premium reduction.

If a further conservation requirement is considered, it should be limited to class IV and VI lands that are marginal or sub-marginal for agriculture. On those lands, a strong case could be made for requiring adequate conservation protection before insurance is issued. Conservation districts and SCS can identify these lands for the administering agency.

3. PROGRAM ADMINISTRATION

We feel that administration of the program should be carried out by the Agricultural Stabilization and Conservation Service, in keeping with their historic function of administering farm programs. They have offices in every county, and can use their County Committee system to provide the local input needed to evaluate past farming history, acreages, normal yields, and the other factors needed. Their offices and services are readily available to all farmers in the Nation, and would make the logical service delivery point.

Conservation districts are, likewise, headquartered at the local level, and could provide ASCS offices with conservation certifications so that ASCS would have the necessary justification for providing the rate discount to conservation farmers. At the same time, ASCS would not be put in the position of turning

away farmers or holding up their applications on the basis of conservation considerations, and this would minimize friction between the local agencies and between the agencies and farmers. The farmer who can't meet the conservation district requirements will miss his rebate, but he will still be eligible to pay the price and buy insurance.

Mr. Chairman, we do not pretend to be insurance experts, nor do we want to make this program so complicated that it is difficult to administer. We feel strongly, however, that you have an opportunity here to begin a completely new trend in the Nation's approach to conservation problems. We can no longer ignore what is happening to our Nation's land, and we realize that many agricultural programs are part of the problem. You have the opportunity to make this new program a part of the solution.

It will certainly not, by itself, solve the conservation problem. But it will be a start. And if we can work similar incentives into other federal and state programs that influence land management, we can begin to make a difference. We hope you will give it your strong consideration.

It is your committee that must oversee all these programs and develop a strategy so that they all fit together to achieve the productivity, the economic stability, and the resource conservation that this country so badly needs. We can no longer afford to solve problems individually. Experience with this narrow approach proves that we create as many problems as we cure.

We thank you for this opportunity to bring our views to you.

NATIONAL GRANGE,
Washington, D.C., March 23, 1979.

HON. WALTER HUDDLESTON,
Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange supports your efforts to establish an all-risk, all-county, all-producers plan for crop insurance.

National Grange policy developed at each of the last three national sessions supports such a concept. A copy of the crop insurance resolution adopted at the 112th Annual Session in Denver, Colo., November, 1978, is attached.

I recommend that the responsibility for administration of a revised crop insurance program be assigned to one agency. The Agricultural Stabilization and Conservation Service (ASCS) has the organization and the delivery system capable of fulfilling this responsibility. It would appear to be uneconomical and duplicative to assign the responsibility for the program to another agency and then require the county committee to carry out the program at the local level. Being responsible to two bosses for two distinct programs could lead to inefficiency and lowered morale.

The National Board of the Commodity Credit Corporation (CCC) could be expanded to include professional insurance expertise and the board charged with developing overall policy. It would also appear to be feasible and desirable to use an already existing organization within USDA, the Economics, Statistics and Cooperatives Service (ESCS), to carry out the actuarial responsibilities for the program. The current work of ESCS parallels very closely this type of activity. This would provide an independent agency to develop actuarial data, the CCC to establish policy and coordinate the program, with ASCS administering the program through one chain of command from the national to the county level.

I would also recommend that the current pilot program be expanded, if possible under the new organization, and the federal disaster payment program be extended for 2 years. This would provide an opportunity to test the system and work out the "bugs" and at the same time provide some modicum of protection for farmers.

I wish to thank you for your interest and efforts to provide a more adequate and fairer system of economic protection for farmers.

Please include this letter in the hearing record on crop insurance legislation. Thank you.

Sincerely,

JOHN W. SCOTT, *Master.*

FEDERAL CROP INSURANCE

Whereas, the environmental risks related to crop and livestock production are so great that it has been public policy to underwrite some of these risks with federal programs, and

Whereas, such programs not only help many farms to remain economically viable but also help bolster and stabilize the local economy in a disaster situation, and

Whereas, current programs (i.e. Crop Ins. Disaster Pmts., Indemnity, Livestock Feed, etc.), although of considerable value to some producers, are severely limited by the commodities covered, by specific areas not covered, by inadequate service delivery points and by limited relevance to specific local and individual farm needs, and

Whereas, Secretary of Agriculture Bergland has proposed all-risk, all-county, all-crop government cost-shared insurance to replace current risk-coverage programs with much broader and more equitable coverage at similar government costs, therefore be it

Resolved, That the National Grange commend the Secretary of Agriculture for his strong efforts to provide all-risk, all-county, and all-crop insurance program and urge the following additional USDA actions, in the writing of legislative proposals and regulations to increase the effectiveness of the future program:

1. Amend the Commodity Credit Corporation Charter to provide adequate funding flexibility.
2. Provide for farmer-elected committee program administration, at the county level in all agricultural counties, complete with local adaptability and producer appeals rights.
3. Provide government cost-sharing of premium and administrative costs of at least the current net expenditure level (approx. ½ billion dollars annually) for such programs.
4. Provide individual farmer cost-of-production coverage, based on the farmer's own production records, as the "basic" insurance available and also provide for both higher and lower levels of coverage, with appropriate premium adjustments, to accommodate persons with different insurance needs and provide for greater freedom of choice.
5. Offer opportunities for private insurance carriers to participate in Federal Crop Insurance where it is feasible. It is hoped private insurance carriers would continue to provide hail insurance.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., March 19, 1979.

HON. WALTER D. HUDDLESTON,
Chairman, Agricultural Production, Marketing and Stabilization of Prices Subcommittee of the Senate Committee on Agriculture, Nutrition and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR HUDDLESTON: We appreciate this opportunity to communicate these thoughts on Agricultural Crop Insurance and Farm Program Disaster Assistance.

Agricultural producers must contend with many factors which reduce or restrict the production of food and fiber. Many producers are interested in protecting their investments in crop production by purchasing insurance to provide assurance that out-of-pocket production costs can be met. Many other producers, especially young farmers who are heavily in debt, have discovered that their sources of farm credit are asking them to minimize repayment risks with production insurance.

Farm Bureau members in 27 States, working through their own organizations, have developed a group of affiliated crop insurance companies that now provide protection to producers against losses due to hail and fire. We recognize that this coverage is not comprehensive and is not being offered in all counties. The primary reasons for this have been (1) the inability of farmer-owned and controlled insurance companies to develop a source of reinsurance against catastrophic losses from causes other than hail and fire, and (2) the fact that the subsidization of certain administrative expenses under the federal program makes it difficult, if not impossible, for private companies to offer competitive rates for all risk-crop insurance.

Farm Bureau supported a two-year limit on the disaster payment provisions of the 1977 Farm Bill to provide time for the Congress to conduct a thorough review of the federal crop insurance and disaster payment programs.

At the most recent annual meeting of the American Farm Bureau Federation, the voting delegates of the member State Farm Bureau adopted the following policy on crop insurance:

We support replacement of the present USDA disaster program by a program providing coverage under multiperil crop insurance based on actuarially-sound data and including all costs and expenses involved.

To accomplish this:

Congress should not include crop fire and hail or authority for livestock and poultry coverage in the new law. Congress should include language in the bill to make it clear that this is a crop insurance program rather than a farm product insurance program.

If subsidies are necessary because of economic conditions they should be restricted to the 50 percent of protection level. Purchasers of crop insurance from the private sector should receive the same subsidy as those purchasing federal crop insurance. Reinsurance of private sector insurers should be provided for in the act.

The program should be based on exposure levels for particular areas and coverage should be limited to a maximum of the average yield for the preceding 3 years.

In addition to the above policy on crop insurance the voting delegates adopted the following policy relating to an extension of the farm program disaster assistance:

We strongly support enactment of a comprehensive crop insurance program. However, if such a program is not established prior to the end of the 1979 crop year, we support an extension of a tightly administered disaster program for no more than 2 years.

The administration's current legislative proposal to reorganize the Federal Crop Insurance Corporation would increase government intervention in agriculture and cause producers to rely heavily on the Federal treasury rather than provide them with the opportunity to develop cooperative self-help programs with minimal reliance on the Treasury.

Farm Bureau supports the principle that agricultural production protection can be provided most efficiently through the private sector.

We ask this committee to continue its exploration of all alternatives for producer protection, including authority for the Federal Crop Insurance Corporation to reinsure private crop insurance programs in more than 20 counties.

We believe that the Department of Agriculture should work more aggressively with private sector insurance companies to utilize the vast resources and talents of the private sector to develop a comprehensive insurance program which will benefit producers.

We oppose the inclusion of crop hail and fire coverage in a new crop insurance bill. We also oppose making the Federal Crop Insurance program a commodity insurance program by including coverage for livestock and poultry.

We appreciate this opportunity to comment on this important issue and request that this letter be made a part of the committee hearing record. Thank you.

Sincerely,

JOHN C. DATT, *Director,*
Washington Office.

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