



UNITED TO GROW FAMILY AGRICULTURE

**TESTIMONY OF ROGER JOHNSON  
NATIONAL FARMERS UNION**

**SUBMITTED TO THE  
U.S. HOUSE OF REPRESENTATIVES  
AGRICULTURE SUBCOMMITTEE ON  
GENERAL FARM COMMODITIES AND RISK MANAGEMENT**

**TO REVIEW COMMODITY PROGRAMS  
AND CROP INSURANCE IN FORMULATING  
THE 2012 FARM BILL**

**MAY 17, 2012  
WASHINGTON, D.C.**

On behalf of the family farmers, ranchers, fishermen and rural members of National Farmers Union (NFU), thank you for the opportunity to submit testimony regarding the 2012 Farm Bill. More than 125 organizations, representing farm, agricultural, rural, conservation, nutrition and hunger interests have called for the passage of a farm bill this year. Many parts of the 2008 Farm Bill have already expired, with the balance set to expire in a few months. The efforts of Chairman Lucas, Ranking Member Peterson, members of this subcommittee and the agriculture committees, and many others to craft an efficient and effective 2012 Farm Bill are commendable. The recent action by the Senate Committee on Agriculture, Nutrition and Forestry in forwarding a bill out of their committee has been very encouraging, and it offers hope that both houses of Congress may act swiftly to pass a bill. Enacting a strong farm bill this year will allow America's farmers, ranchers and rural communities to be confident they have access to a strong safety net that can be deployed when disasters strike or when markets collapse.

NFU is proud to be a grassroots organization made up of approximately 200,000 farm families in 33 states. Policy positions are developed by the farmers, ranchers, fishermen and rural resident members. Our policies are written at the local, regional and state levels, and then on the national level. Our members voted on and formally adopted our principles for the next farm bill in two special orders of business (see addendum) in March at our annual convention in La Vista, Neb.<sup>1 2</sup>

NFU acknowledges today's challenging budget environment, but also understands that tomorrow's budget situation is not likely to be any more favorable. The agriculture community has stated many times that it is willing to bear its fair share of cuts in order to contribute toward deficit reduction, but they must be proportional to cuts in other sectors. I respectfully urge members of the committee to consider the critical and tenuous nature of our nation's food security when considering the next farm bill. Production agriculture is a primary economic driver. When production agriculture prospers, a multiplier effect results and jobs and tax revenues at the local, state, and national levels are added without raising tax rates. Spending reductions that adversely impact the productivity and profitability of production agriculture are counterproductive to our overall national economic interests. Family farmer- and rancher-owned and operated food, fuel, and fiber production is the most economically, socially and environmentally beneficial way to meet the needs of our nation.

Our national farm and food policy affects all Americans, urban and rural, food producers and food consumers. We have the opportunity to shape this important policy only once every few years. Our nation's family farmers, who are those most vulnerable to risk, need an effective and fiscally responsible safety net to mitigate the effects of weather and market volatility in order to achieve our food and energy security goals and to preserve jobs in rural America. As the

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<sup>1</sup> "The 2012 Farm Bill: Investing in Rural America." National Farmers Union Special Order of Business. Approved March 6, 2012. [http://www.nfu.org/images/stories/SpecialOrders/2012/FarmBillAMENDED\\_SpecialOrder.pdf](http://www.nfu.org/images/stories/SpecialOrders/2012/FarmBillAMENDED_SpecialOrder.pdf)

<sup>2</sup> "Market-Driven Inventory System and The Farm Bill." National Farmers Union Special Order of Business. Approved March 6, 2012. [http://www.nfu.org/images/stories/SpecialOrders/2012/MDIS\\_SpecialOrder.pdf](http://www.nfu.org/images/stories/SpecialOrders/2012/MDIS_SpecialOrder.pdf)

members of the committee know, agriculture is a unique industry, with market behavior that defies typical supply and demand economics, high input costs, and the constant risk of weather disasters threatening our nation's producers. It is NFU's belief that farmers should not receive support in the good times, but that farm policy should instead provide economic security to farmers, who have little market power, in bad times. Our nation's farmers need a more effective and fiscally responsible safety net to mitigate the effects of weather and market volatility and to achieve our food and energy security goals.

### **Additional Farm Bill Priorities**

Congress should continue investments in rural America through farm bill conservation and energy programs. Demand for these initiatives remains high and yet these programs are chronically underfunded in the annual appropriations process, which results in program backlogs. Congress should provide a flexible conservation toolbox in the 2012 Farm Bill that includes streamlined program delivery for working lands, land retirement and easement programs, coupled with significant federal funding and flexible local planning authorities.

Additionally, the 2008 Farm Bill included language that established and continued important research, animal health, marketing, and disaster programs related to livestock production, which brought additional interests into the farm bill process. The livestock title mandated country-of-origin labeling (COOL) for meat, fish, perishable agricultural commodities, and assorted other food products, which has been a long awaited and very beneficial law for farmers and consumers alike. A livestock title should be a part of the 2012 Farm Bill and must maintain the progress established by the previous farm bill.

Furthermore, NFU has a long, proud history of advocating for programs that help the less fortunate among us. National nutrition policy must address both the quantity and quality of food available to needy Americans, and nutrition programs should place an emphasis on fresh and local food to ensure that Americans of all income levels have access to healthy, nutritious foods. The local food procurement directive of the 2008 Farm Bill must be continued and further emphasized in the 2012 Farm Bill, and NFU supports further incentives for Supplemental Nutrition Assistance Program (SNAP) and other federal nutrition program recipients to use their benefits at farmers markets, achieving dual objectives of providing healthy food to those who need it most and supporting family farmers and ranchers.

### **Market-Driven Inventory System: An Overview**

In 2011, NFU commissioned the University of Tennessee's Agricultural Policy Analysis Center (APAC), under the leadership of Dr. Daryll E. Ray, director, and Dr. Harwood Schaffer, research assistant professor, to develop a farm program that would moderate extreme volatility in commodity markets while allowing farmers to receive their income from the marketplace rather than from government payments, saving the federal government a significant amount of money in the process.

The Market-Driven Inventory System (MDIS) developed by Dr. Ray is an agricultural commodity program that mitigates price volatility, providing advantages to livestock producers, the biofuels industry, and to hungry people in this country and around the world. In addition, it would reduce government expenses, increase the value of crop exports, and maintain net farm income over time. The central feature of MDIS is a voluntary, farmer-owned and market-driven inventory system that operates under market forces during normal conditions but moderates prices at the extremes. Inventory stocks activity would only be activated when crop prices become so low or so high that normally profitable agricultural firms are not provided with reasonable investment and production signals. By working with the market, MDIS would ensure that farmers receive their income from the market instead of from government payments.

In the wake of the extreme commodity price volatility seen from 2006 to 2010, many of our international counterparts have revitalized, constructed or made plans for a grain inventory management system on a national level. The international community has also of late called for the establishment of a global “‘virtual’ internationally coordinated reserve system for humanitarian purposes,” first mentioned in the G8 Leaders’ Statement on Global Food Security at the Hokkaido Toyako Summit on July 8, 2008, and more recently at the November 2011 G20 summit in Cannes, France. Implementation of MDIS in the United States could be a valuable model for future global, coordinated grain inventory management systems.

This two-phase study found that MDIS can provide the functions sought by NFU’s family farmer and rancher members and our international brothers and sisters. The first portion of the study (Phase I) is a rerun of history from 1998 to 2010 with one change: the commodity programs during that period are replaced with MDIS. The second (Phase II) uses the U.S. Department of Agriculture (USDA) ten-year baseline released in February 2012 as the starting point for the analysis. Because ten-year-ahead baseline projections lack real world variability, a pattern of shocks that roughly mimic the variability experienced by crop agriculture from 1998 to 2010 were imposed on the projections.

The POLYSYS simulation model, developed by APAC, is the analytical model used in this analysis. POLYSYS simulates changes in policy instrument levels and/or economic situations as variation away from a baseline situation. Crop allocation decisions are made with linear programming models using county-level data as a proxy for farm-level decisions. The crop prices and demands as well as all livestock variables are estimated at the national level. National estimates of revenues, costs and net returns are also estimated.

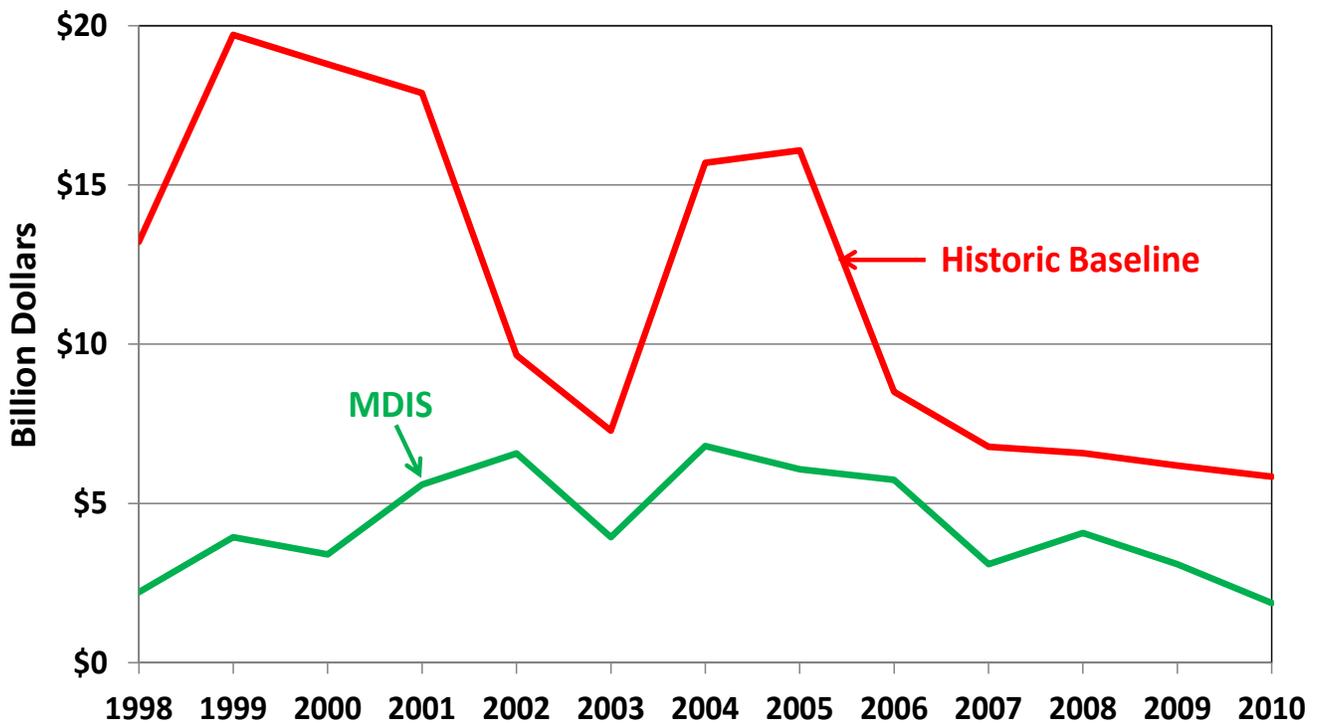
### **MDIS Phase I: A Historical Analysis**

Phase I explores the extremely volatile commodity price period between 1998 and 2010 using historical data as the baseline. In this portion of the analysis, the actual historical supply, demand and price numbers are compared with what those numbers are estimated to have been had MDIS been in effect.

During the 1998 to 2010 time period, actual government payments for the eight program crops (corn, wheat, soybeans, grain sorghum, barley, oats, cotton and rice) totaled \$152.2 billion,

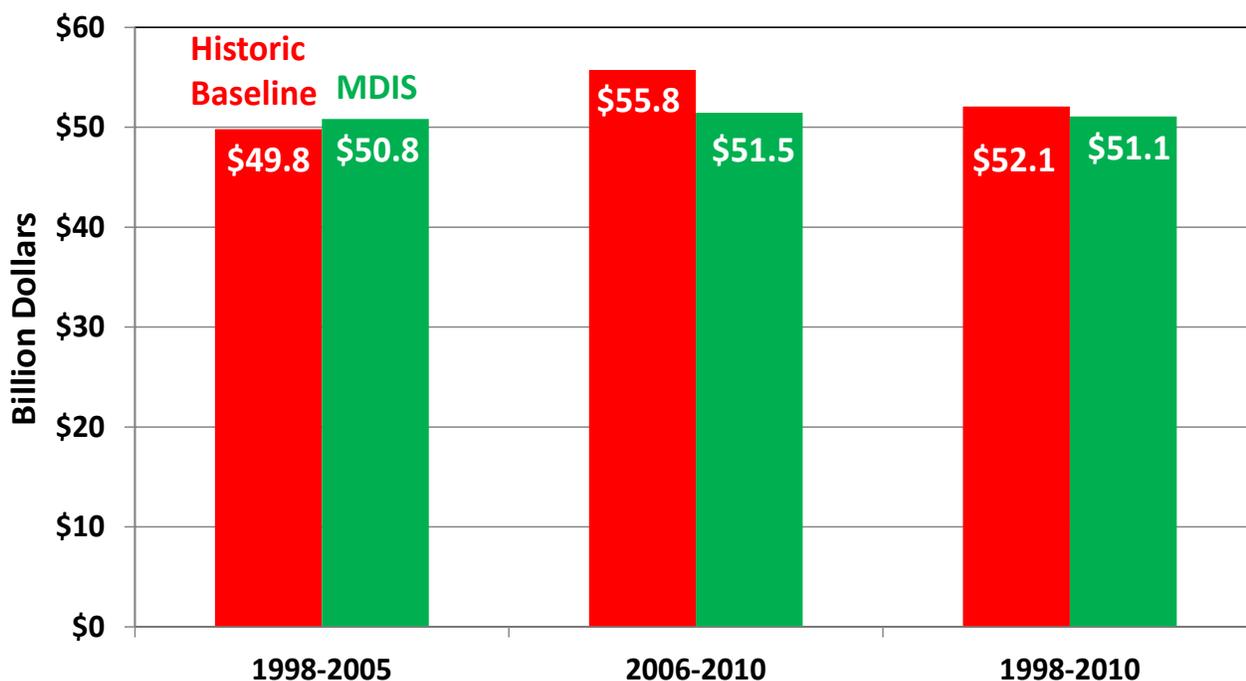
excluding crop insurance premium subsidy payments. If MDIS had been in place during this time, farmers would have received \$56.4 billion from the government (in storage payments), while earning roughly the same net farm income over the period as historically received (figures 1 and 2). With MDIS in effect, annual net farm income would have been, on average, higher in the early part of the period (1998 to 2005) and lower in the latter part of the period (2006 to 2010) but for the full 13 years under MDIS, net farm income averaged only slightly lower (\$51.1 billion versus \$52.1 billion). MDIS would have proven to provide an effective safety net for farmers, remove the volatility from the commodity market and reduce government payments by approximately two-thirds.

**Figure 1: Government Payments for 8 Crops: 1998 - 2010**



*Fig.1 compares the federal cost of the farm bill programs that were implemented from 1998 to 2010 to the cost of MDIS if it had been in place during this time frame. The analysis found that, had MDIS been implemented instead of the farm bill programs that were in place, the federal government would have saved more than \$95 billion dollars over the 13-year period.*

**Figure 2: Realized Net Farm Income, 1998-2010**

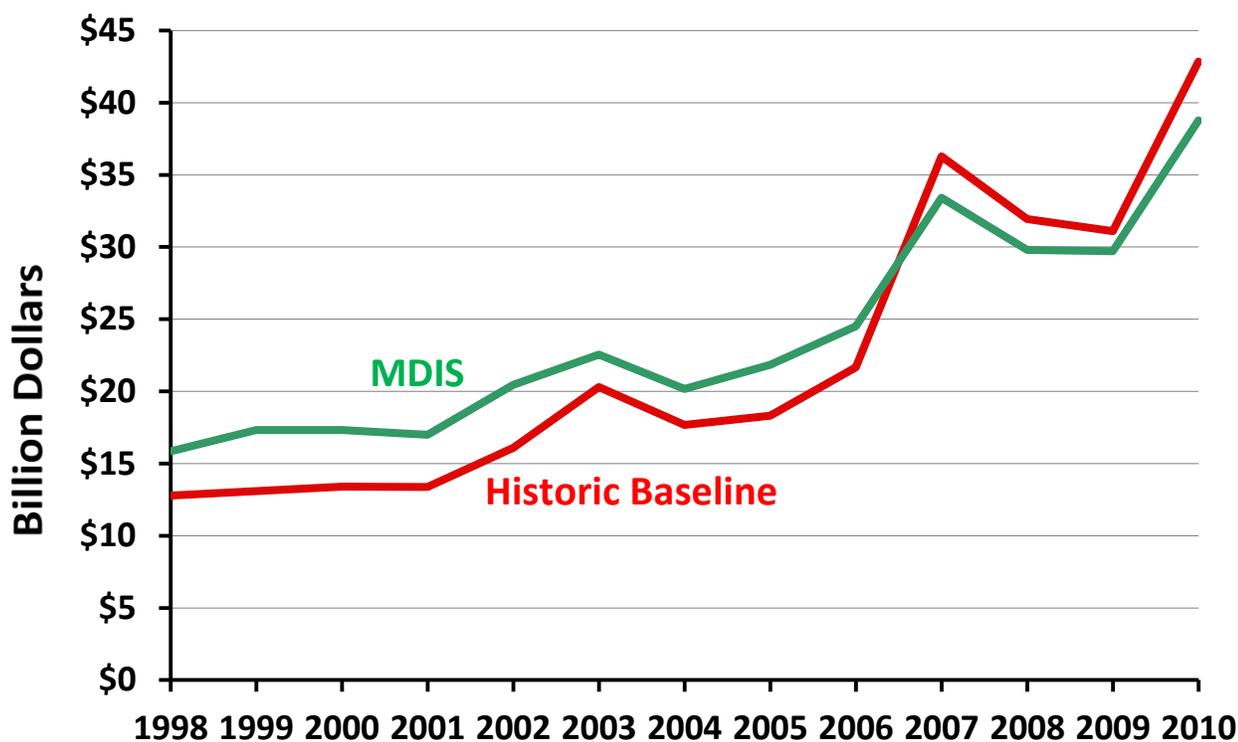


*Fig. 2 compares net farm income from the farm programs that were implemented from 1998 to 2010 to what net farm income would have been had MDIS been in place during this time frame. The analysis found that net farm income would have remained virtually unchanged over the 13-year period.*

For the entire 13-year period, the value of production under the baseline policies was \$413 billion while with MDIS it would have been \$446 billion – a difference of \$2.6 billion per year. Crop prices were significantly higher under MDIS in the early part of the period, and for the full 1998 to 2010 period prices were higher by \$0.25, \$0.50 and \$1.00 per bushel for corn, wheat and soybeans, respectively, compared to actual prices.

Had MDIS or a similar inventory-based commodity program been in effect from 1998 to 2010, the value of crop exports would have exceeded the actual value of exports during that period (figure 3). A higher crop price does cause a reduction in the quantity exported, but that decline is less than the increase in price. As a result, the value of exports increases with rising prices and decreases with price declines. (As an aside, this property does not bode well for the future direction of the change in value of agricultural exports over the next few years if prices decline.)

**Figure 3: Annual Value of Exports for 8 Crops (1998-2010)**



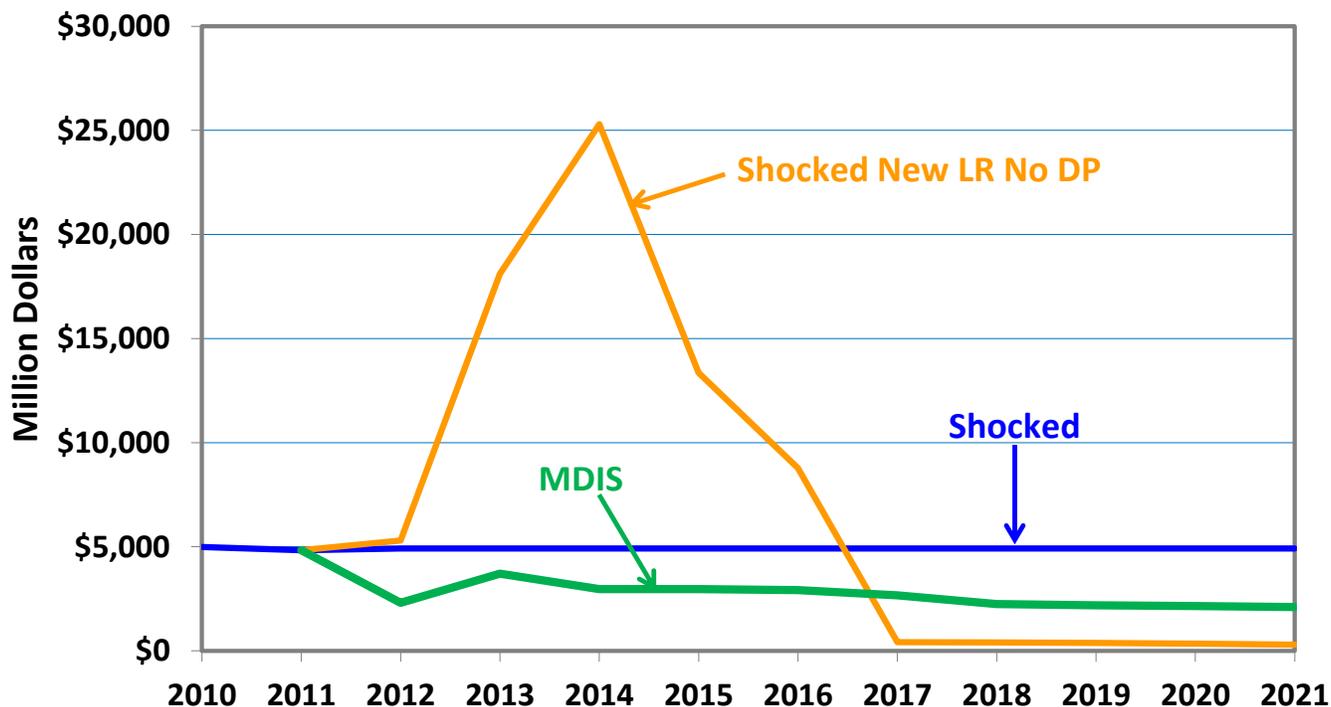
*Fig. 3 compares the historic export value of the eight program crops from 1998-2010 to their value if MDIS had been in place during this time frame. The analysis found that, had MDIS been implemented instead of the farm bill programs that were in place, the export value of the eight program crops would have been greater over the 13-year period.*

### **MDIS Phase II: Future Projections**

Phase II is based on USDA baseline projection data for 2012 to 2021 as the beginning point of the analysis, but production shocks were used to mimic the variability that crop and livestock agriculture experienced between 1998 and 2010. Crop yields 10 percent above the baseline for the eight major crops for the 2012 through 2014 crop years were imposed, and in the 2017 and 2018 crop years a 10 percent decrease below baseline yields was used, along with a five percent decline in 2019. The purpose of these yield shocks was to reproduce price conditions similar to those that were seen in 1998 through 2010 – a timeframe that saw both low prices accompanied by massive government payments and record high prices. The resulting comparisons below are between this shocked baseline assuming continuation of current commodity programs and the MDIS alternative. The MDIS simulation includes the same production shocks.

Government payments with a continuation of the current programs and shocked production total \$65 billion over the 10 years from 2012 to 2021. With MDIS in place, government payments are estimated to total \$26 billion, or 60 percent less (figure 4).

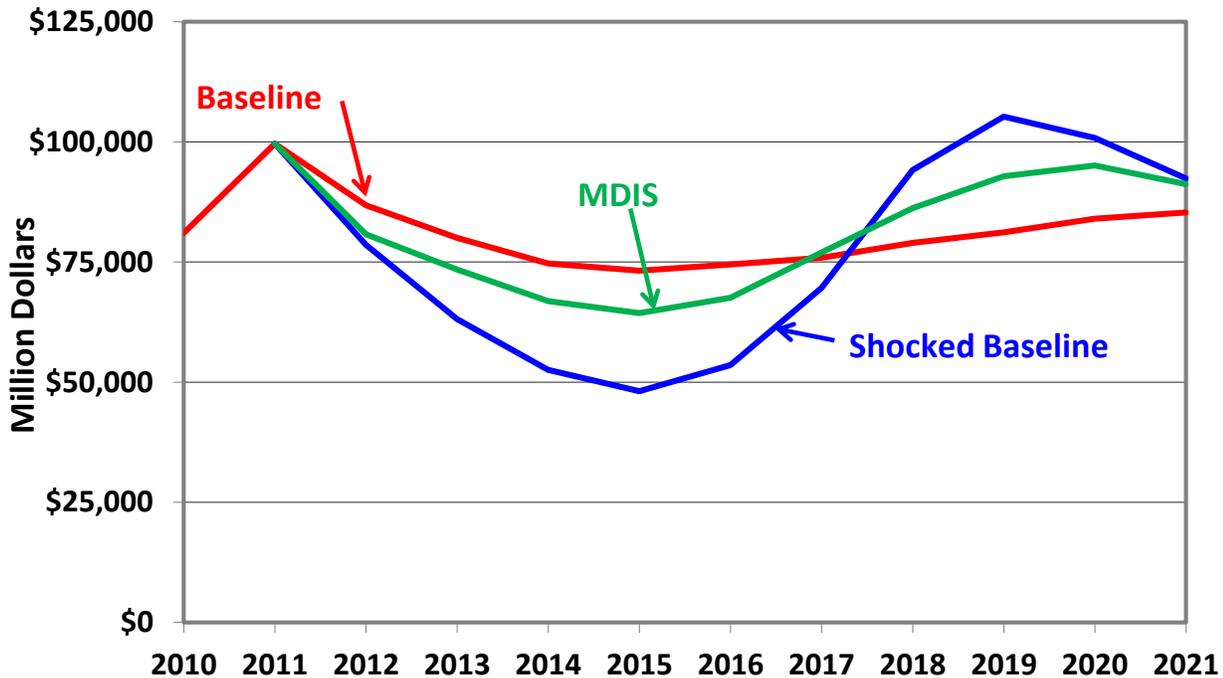
**Figure 4: Government Payments for 8 Crops: 2010 – 2021**



*Fig. 4 compares the projected federal cost if current farm programs are extended to the projected net farm income under MDIS from 2010 to 2021 under three scenarios. First, if current programs are extended and annual values match USDA’s baseline projections; second, if current programs are extended and supply/demand shocks are felt (as described earlier in the document), and; third, if supply/demand shocks occur but MDIS programs are in place. The analysis projects that government payments would be \$39 billion lower if MDIS is implemented rather than extending current programs.*

Net farm incomes averaged over the 10 years are nearly identical -- \$79.2 billion per year under the current programs and slightly higher with MDIS, \$79.6 billion (figure 5).

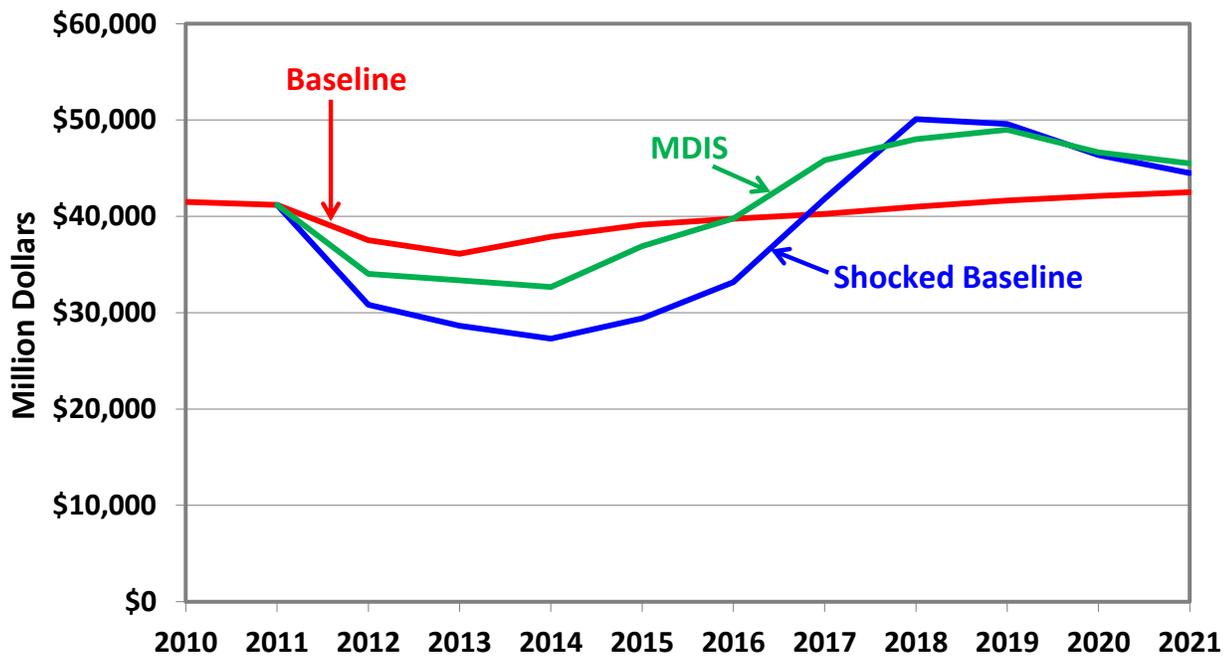
**Figure 5: Realized Net Farm Income, 2010-2021**



*Fig. 5 compares the projected net farm income if current farm programs are extended to the projected net farm income under MDIS from 2010 to 2021 under three scenarios. First, if current programs are extended and annual values match USDA's baseline projections; second, if current programs are extended and supply/demand shocks are felt (as described earlier in the document), and; third, if supply/demand shocks occur but MDIS programs are in place. The analysis projects that net farm income would be slightly higher under MDIS than under current programs in either scenario.*

Because crop prices average higher with MDIS than under the current program, the value of exports over the ten year period is higher with MDIS by \$15 billion, or \$1.5 billion per year, on average (more in the first part of the period and less in the latter part of the period) (figure 6).

**Figure 6: Value of Exports- 8 Crops, 2010-2021**



*Fig. 6 compares the projected export value of the eight program crops from 2010 to 2021 to their projected value if MDIS is in place during this time frame. The analysis projects that, if MDIS is implemented instead of extending the current farm bill programs, the export value of the eight program crops would be \$15 billion more over the study period.*

### **MDIS: Mechanics**

For Phase I, the beginning corn loan rate is halfway between the variable cost of producing a bushel of corn and the corresponding total production cost. In 1998 that number is computed to be \$2.27 per bushel of corn. The 1998 loan rates for other crops are then computed to be in the same proportion to corn loan rates as those legislated by the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (the 1996 Farm Bill) in order to minimize distortion, except for grain sorghum, for which the loan rate is raised to be equal to that of corn, and soybeans, for which the loan rate is raised to \$6.32. The loan rates of all crops are adjusted for 1999 through 2010 using USDA's prices-paid-by-farmers chemical input index.

The analysis for Phase II of the study follows the approach and most of the basic specifications used for Phase I. The loan rates for this analysis (all in dollars per bushel) are: \$3.50 for corn, grain sorghum and barley, \$2.49 for oats, \$5.28 for wheat and \$8.97 for soybeans. The loan rates have the same proportion to corn as the loan rates in the Food, Conservation and Energy Act of 2008 (the 2008 Farm Bill). Loan rates are held constant for the full 2012 to 2020 period.

The maximum quantities of grain allowed in the MDIS inventory in both Phase I and Phase II are specified to be three billion bushels of corn, 800 million bushels of wheat and 400 million

bushels of soybeans. Inventory maximum levels for other program crops would be set as appropriate. Farmers with MDIS recourse loans are paid \$0.40 per bushel per year to store the grain and are required to keep the grain in condition.

With MDIS in operation, markets work uninterrupted until prices are estimated to fall below a recourse loan rate or, if MDIS inventory is available, prices exceed 160 percent of the loan rate.

When prices fall below the loan rate, the model estimates the amount of grain that farmers would need to put under recourse loan with the Farm Service Agency (FSA) to raise the market price to or above the loan rate, which is the “price” that FSA uses to value the grain used as collateral for the loan. If a market price is estimated to exceed 160 percent of the loan rate, the model checks to see if there is an inventory stock in the MDIS farmer-owned inventory. If MDIS inventory is available, the model computes the quantity needed to lower price to about 160 percent of the loan rate and allows that amount of stock onto the market. Setting the release price at 160 percent of the loan rate is the key to establishing a functional system. The market does not work as effectively within the model at higher or lower loan rate-release price ratios.

The grain under MDIS must stay in inventory, that is, it cannot be redeemed by paying off the loan and marketed until the price goes above the release price of 160 percent of the loan rate and notification is specifically received. With MDIS in effect, all government payment programs (countercyclical payments, loan deficiency payments, fixed or direct payments, etc.), except MDIS inventory storage payments and crop insurance subsidies, are eliminated for corn, grain sorghum, oats, barley, wheat, and soybeans. An optional set-aside would be available for use at the secretary’s discretion if MDIS inventory maximums are reached and prices fell below loan rates. Rice and cotton are not included in MDIS and are assumed to remain eligible for current program payments.

### **History of Commodity Programs – How Did We Get Here?**

With the adoption of the FAIR Act of 1996, which extended the marketing loan program to all crops, the holding of grains either by the Commodity Credit Corporation or farmers in a farmer-owned reserve was made ineffective. Part of the logic behind the end of these grain storage programs was the belief that if there were a need for stocks, participants in the commercial sector would buy up those stocks at a low price and later sell them at a higher price with no cost to the government. Recent history has demonstrated that those commercial inventories simply did not come into existence and the market has seen numerous countries impose harmful export limitations of their domestically produced foodstuffs in the face of citizen concern over food shortages. In the U.S., we have even heard concerns from the livestock sector over the availability of sufficient feed supplies.

The 1996 Farm Bill instead established the present system of direct and countercyclical payments. Almost immediately after the 1996 bill, the market changed and commodities prices began to decline. From 1996 until 2004, the value of agricultural exports fell from an all time

high of \$27.3 billion to \$10.5 billion<sup>3</sup>. From 1996 until 2005, corn prices fell to an average of \$2.06 per bushel, wheat an average of \$3.03 per bushel and soybeans an average of \$5.33 per bushel<sup>4</sup>. The elimination of reserves and new incentives to plant program acres combined to result in widespread overproduction, devalued crop prices and thus an increase in the amount paid in government subsidies. The resulting system had no way to manage wild swings in supply and market volatility that have proven detrimental not only to family farmers but also to consumers in developing countries, industries dependent upon agricultural commodities for inputs, and rural economies.

In times of high commodity prices, such as current market conditions, target prices are set so low that even in the case of a market downturn the countercyclical program does not reflect the rising cost of production or provide an adequate safety net. Direct payments are increasingly indefensible to the public and unnecessary for farmers, as they get distributed based on historic production, regardless of current market price.

As a result, from 1998 to 2010, government payments for crops totaled \$152.2 billion<sup>5</sup>. If MDIS had been in place for corn, wheat and soybeans between 1998 and 2010, government payments to farmers would have been reduced by nearly two-thirds to \$56.4 billion, the value of exports would have increased, average commodity prices for farmers would have been higher, damaging price volatility would have been substantially reduced and overall farm income would have been left effectively unchanged<sup>6</sup>.

### **MDIS and the Federal Deficit**

As Congress continues to seek ways to reduce the federal deficit, any serious discussion regarding controlling government expenditures should include MDIS. APAC's analysis over the 10 years from 2012 to 2021 found that government payments with a continuation of the current program and shocked production remain unsustainably high, totaling \$65 billion. However, with MDIS in place, estimated government payments over the same period total \$26 billion, a 60 percent reduction (figure 4) as compared to the current farm programs<sup>7</sup>.

MDIS could save tens of billions of dollars paid under existing government payment programs and the additional tens of billions in "emergency" payments and government subsidies to revenue insurance programs otherwise needed to offset the almost inevitable periodic severe collapses in grain prices. Under MDIS, grain farmers receive their income from the market and grain demanders are not subsidized or overcharged.

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<sup>3</sup> Jerardo, Alberto. February, 2004. "The U.S. Trade Balance...More Than Just a Number." U.S. Department of Agriculture-Economic Research Service.

<sup>4</sup> Ray, Daryll, et. al. March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ray, Daryll, et. al. March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

## **MDIS Benefits Stakeholders**

MDIS holds numerous benefits for a variety of stakeholders, including farmers, the environment, livestock producers, the ethanol industry, taxpayers and the food insecure worldwide.

## **MDIS Benefits Farmers**

MDIS helps smooth out some of the wild price swings that can put some farmers out of business. By providing a greater level of income certainty, MDIS helps farmers plan for the future without decreasing net farm income. Land prices and input costs rise dramatically when commodity prices rise, but when prices drop, these costs do not drop correspondingly. With a reasonable loan rate, farmers could make long-term investments in their farming operation that improve their long-term profitability.

Farmers who put their corn, wheat and/or soybeans into the inventory system would benefit from the receipt of storage payments. They would also benefit from the future sale of their stored commodity at the higher release price. With MDIS in effect, annual net farm income was higher, on average, in the early part of the period from 1998 to 2005 and lower in the latter part of the period from 2006 to 2010, but for the full 13 years, the MDIS net farm income averaged only slightly lower (\$51.1 billion versus \$52.1 billion). The low-price years would reduce the tendency to capitalize higher returns into land. While sufficient to keep current land in production, the moderated prices do not provide the kind of price signals that would lead to an overexpansion of productive capacity and lower prices over the longer term. Net farm incomes averaged over the ten years are almost identical (\$79.2 billion per year under the current program and slightly higher with MDIS at \$79.6 billion). From 1998 to 2010, farmers would have benefited from price signals that more accurately reflect the supply/demand situation at a given time, than when futures prices reflect herd-following speculative behavior on the part of some market participants.

## **MDIS Benefits Conservation**

MDIS holds significant conservation benefits because price stability puts less pressure on environmentally sensitive land. During high price years, for example, demand pressures on land is reduced because farmers will not be incentivized to break native grassland or bring Conservation Reserve Program acres back into crop production. During low price years, net farm income would remain higher under MDIS. This means that farmers have more money to invest in conservation in order to meet their cost-share requirements under programs such as the Environmental Quality Incentives Program.

## **MDIS Benefits Livestock Producers**

Less volatile commodity prices under MDIS help livestock producers keep input costs more stable and help prevent skyrocketing grain prices, which can bankrupt livestock producers. In the 2006 to 2010 period, higher prices put some producers over the financial edge; however,

MDIS would have reduced commodity prices to a more reasonable and survivable level. Livestock producers are vulnerable to rapidly increasing feed prices, which they cannot quickly pass on to the consumer. Overall, MDIS would have provided livestock producers and industrial users with security in the availability of feed supplies and a more reasonable range of prices.

### **MDIS Benefits the Ethanol Industry**

Abnormally high commodity prices are also damaging to the ethanol industry and can cause disruptions in the supply chain. Having access to a stable supply within a more predictable price range allows ethanol producers to engage in long-range planning. MDIS decreases price fluctuation faced by ethanol plants and ensures more stable production, which in turn helps put America on the road to energy independence.

### **MDIS Benefits Taxpayers**

Throughout the study period, government payments for crops totaled \$152.2 billion. Had MDIS been in place from 1998-2010 rather than the existing programs, taxpayers could have saved more than \$95 billion compared to what the federal government actually spent on farm programs. This is a nearly 60 percent reduction in expenditures. Government payments with a continuation of the current programs and shocked production total \$65 billion over the ten years from 2012 to 2021; with MDIS the estimated cost is \$26 billion, also a 60 percent reduction.

Equally important, MDIS addresses perceptions among some consumers that the government is giving unwarranted handouts to farmers. By setting up a system that allows the price to range closer to costs of production, these policies allocate the costs to the major users of commodities, both domestic and international, rather than expecting the U.S. federal government to subsidize their purchases. In addition to the benefits they would receive under MDIS as taxpayers, U.S. consumers would benefit from more stable commodity prices that would reduce the volatility of food costs. While commodity prices under MDIS increased in the 1998 to 2005 period according to the model, the farm portion of most processed food costs that U.S. consumers eat is relatively small, resulting in minimal long-term pressure on food prices. Average commodity prices in the 2006 to 2010 period under MDIS would not have increased as much as they did under existing policies, reducing upward pressure on food prices.

### **MDIS Benefits the Impoverished**

In developing nations, a small increase in commodity prices can mean the difference between putting food on the table and going hungry. MDIS reduces the price swings that cause many people who are directly reliant upon staple crops like corn to go hungry when they can no longer afford food. Importers of U.S. corn, wheat and soybeans would have been assured of a stable supply of storable commodities, reducing the need for countries to protect local supplies of grains.

With farmers constituting as much as 60 to 70 percent of the poor in developing countries, higher prices in the 1998 to 2005 period under MDIS would not adversely affect these farmers

because of the large amount of food that they produce for self consumption. In addition, they would receive a more stable income for the product they do sell into the market. In times of high prices, many subsistence farmers and urban poor are often priced out of the market, increasing the number of chronically hungry persons in the world. As a result of the price spike in 2007 and 2008, more than 200 million people fell into the chronically hungry category. By moderating the price spikes, MDIS reduces the price pressure on the poor in developing countries. In addition, MDIS assures participants in the marketplace of an adequate supply of grain, reducing the hoarding tendency, which often results in localized price spikes.

## **Permanent Disaster Programs**

NFU has long been a leading proponent of a permanent disaster program. The unpredictability and inefficiencies associated with ad hoc disaster programs led to the inclusion of the Supplemental Revenue Assistance Program (SURE) and other related programs, such as the Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish Program (ELAP), the Livestock Indemnity Program, and more, in the 2008 Farm Bill. These permanent disaster programs were intended to allow farmers and ranchers to recover quickly from devastating weather without waiting for piecemeal disaster assistance. Unfortunately, that set of programs was inadequately funded and oversight challenges postponed many of the rules and regulations needed to implement the programs. Even in 2010, there were farmers still awaiting their claims for 2007 losses. SURE and similar initiatives were a hard-won victory for family farmers and ranchers and those programs' guiding principles – to protect farmers against catastrophic yield losses – ought to be included and appropriately implemented in the next farm bill.

In the next farm bill, permanent disaster programs must be funded at a level that makes them effective and eliminates the need for ad hoc payments. Partial advance payments should be made available so that assistance can be quickly provided in times of desperate need. Decision makers must ensure that we can continue the work that was done with SURE and other programs in 2008. Returning to a system of ad hoc disaster programs is likely to be much more costly for both the federal government and for farmers. Not only are ad hoc programs expensive, they are also difficult to administer, extremely political and not solely influenced by real conditions and/or need. Between 1996 and 2002, when the commodity title was removed from the farm bill, approximately \$30 billion was spent on ad hoc disaster programs<sup>8</sup>. The cost to extend SURE and similar disaster assistance programs for five years in a 2012 Farm Bill is projected to be \$8.9 billion<sup>9</sup>, and baseline funding for the permanent disaster programs expired in 2011. It should also be noted that any disaster program would likely be less costly if the MDIS concept were also included in the next farm bill<sup>10</sup>.

Even though permanent disaster programs were enacted in the 2008 Farm Bill, ad hoc disaster relief efforts were authorized in 2010. This is likely due to the fact that SURE and the other

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<sup>8</sup> USDA Economic Research Service, retrieved from <http://www.ers.usda.gov/Data/FarmIncome/FinfidmXls.htm>

<sup>9</sup> Congressional Budget Office

<sup>10</sup> Ray, Daryll, et. al. March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

programs were not as effective or fast-moving enough to satisfy the needs of farmers who were affected by disaster. If disaster programs were strengthened, these legislative solutions would likely be unnecessary. It should also be kept in mind that disaster programs are among the few farm bill programs that provide roughly equal benefits to both farmers and ranchers. Including a set of previously unaffected sectors of agriculture in federal farm policy would generate more support for the overall farm bill.

It is important that farmers do their part by responsibly sharing in the inherent business risks of their farm. The distribution of disaster aid must remain linked to crop insurance participation, and SURE participants should be required to purchase more than just catastrophic (CAT) coverage so that they are able to reasonably recover some of their losses through crop insurance.

Any improvements in disaster programs should not come at the expense of program delivery. County FSA staff who service these programs are pushed to the limits of their resources as it is, and their offices need adequate funding and modern technology in order to continue to serve our country's farmers. A consistent, predictable and stable backup plan for farmers struck by weather-related problems is the most important benefit of having a permanent disaster aid program. Any efforts to improve upon it should not interrupt the positive results SURE and other disaster programs provided.

## **Risk Management**

Crop insurance is an important safety net mechanism that provides assistance to farmers only when assistance is needed. It is fully compatible with MDIS and, as such, crop insurance must remain a cornerstone of farm policy. Risk management tools must be made economical for all farmers, regardless of crop or geographic region, and more insurance products should be made available that protect against changes in the cost of production. Farmers also need protection against losses due to weather-related disasters, high input costs or devastatingly low prices. NFU supports efforts aimed at streamlining and eliminating duplication among existing farm bill programs. Risk management provisions in the next farm bill should extend the availability and affordability of federal crop insurance programs to farmers in portions of the country that have not historically carried significant levels of crop insurance, thereby reducing the need for disaster aid.

NFU members support the reestablishment of compliance requirements for federal crop insurance eligibility so that all existing or new crop and revenue insurance or other risk management programs are subject to all conservation compliance provisions.

Crop insurance coverage should be improved for organic producers, including ending the existing surcharge on organic policies and the full implementation of coverage levels based on organic prices. Additionally, crop insurance products and other risk management tools should be developed for specialty crop producers. Funding levels for crop insurance must remain adequate as it is the most critical and effective safety net for farmers and crop insurance has already been subjected to recent significant cuts.

Recent budget cuts to crop insurance, which subtracted from the farm bill baseline, were made since the last farm bill. We urge lawmakers to carefully consider the effects of reduced funding for crop insurance programs and prohibitions should be put in place to prevent future raids on crop insurance resources, particularly through the Standard Reinsurance Agreement process. Cuts should not come at the expense of greatly increased risk management costs for farmers. Continued vigilance should be maintained to prevent the abuse of crop insurance programs, but crop insurance must remain a part of the next farm bill. Costs associated with the federal crop insurance program have risen as crop insurance has taken on additional importance in the suite of safety net tools in the farm bill. Although costs have increased over the long run, total costs of the crop insurance program were cut nearly in half between 2008 and 2010. Most of the savings came from reductions in net indemnities, although reductions to administration and overhead subsidies for approved insurance providers have made for decreased spending as well.

There are also a few adjustments to the mechanisms of the crop insurance programs that should be considered. All risk management programs should be based upon Actual Production History (APH), and for situations in which the APH is not available, the qualified yield for a farm should not be set at a lower level than that of county FSA calculations. In order to protect farmers in the event of successive crop disasters, we also urge the establishment of APH yield floors. These common sense approaches to crop insurance will help to ensure that losses are accurately reflected in indemnities.

Crop insurance is not the be-all and end-all for a farm safety net. Without reducing the volatility that plagues agriculture commodity markets with MDIS, revenue-based crop insurance products will be extremely expensive in high price periods and will provide little, if any, assistance to farmers when prices collapse. NFU members would much rather see a farm policy that also includes MDIS and disaster assistance programs to moderate the volatility of the agricultural marketplace and yields so that farmers can continue to farm.

## **Conclusion**

Many challenges lie ahead in the writing of the next farm bill. Funding is and will continue to be tight. It is critical that lawmakers come together in a bipartisan manner to outline the top priorities for the omnibus agricultural legislation.

The average American spends less than 10 percent of his or her disposable income on food, which is the lowest rate of any industrialized nation in the world. It is a fantastic bargain. This deal is the result of our national investments in agriculture through farm policy, which have ensured that America's farmers and ranchers can continue to provide the safest and most abundant food supply in the world. The primary purpose of the next farm bill ought to be as a strong safety net that protects farmers and ranchers during tough times for the health of our nation and our rural economies. A forward-thinking and well-designed safety net will be much more cost-effective than reactionary legislation that is put forward in times of emergencies.

When writing the next farm bill, lawmakers must be penny-wise but not pound-foolish. The MDIS program will have a cost, but as the study by the University of Tennessee demonstrates, it will save money in the long term. Permanent disaster programs, too, save money. For example, the U.S. spent \$30 billion between 1996 and 2002 in emergency and ad hoc disaster programs to help farmers and ranchers when prices collapsed and the farm bill had no safety net for them<sup>11</sup>. Keeping that in mind, the cost to extend SURE and similar disaster assistance programs for five years, which could have replaced those ad hoc disaster programs, is \$8.9 billion.

We must also complete the next farm bill this year to protect against even further cuts to agriculture. USDA cut \$4 billion from agriculture programs by renegotiating the Standard Reinsurance Agreement in 2011. Congress approved a budget reduction to agriculture programs of more than 15 percent for the 2012 Fiscal Year, a cut that was two to three times deeper than the average across-the-board reduction in discretionary spending. By waiting until 2013 or later to complete the next farm bill, there may be even less funding available, making it nearly impossible to pass a farm bill that will protect America's family farmers and ranchers in tough times.

By coming together in a strong, bipartisan fashion, it is possible to craft a fiscally responsible 2012 Farm Bill with an adequate safety net to protect America's family farmers and ranchers and to help make rural communities vibrant. On behalf of the members of National Farmers Union, thank you for the opportunity to outline our priorities and I look forward to working with you to enact this critical legislation.

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<sup>11</sup> USDA Economic Research Service, retrieved from <http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm>