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October 21, 2011

The Honorable
Committee on Agriculture, Nutrition and Forestry
United States Senate
Washington, DC 20510

The Honorable
Committee on Agriculture
United States House of Representatives
Washington, DC 20515

Dear Sen. / Rep. :

Last night, the American Farm Bureau Federation Board of Directors (Farm Bureau) reiterated its support for the farm bill principles forwarded two weeks ago to the House and Senate Agriculture Committees.

Those principles supported continuation of a multi-legged stool for commodity programs. We strongly believe a combination of direct payments, counter-cyclical payments (both CCPs and the ACRE program), a commodity loan program and crop insurance will provide a much better safety net than only relying on one or two of those programs. All of our current programs, with the exception of SURE, should be maintained and adjustments made to make them more effective in a reduced budget environment.

Farm Bureau opposes a shallow loss revenue program. If much of the risk in farming is reduced, the government may be encouraging producers to take on more risk than they would in response to market signals alone. If a producer knows the government will cover all but 5 or 10 percent of losses, he or she may be inclined to buy more acreage than they can effectively manage and therefore bid up the price of land. Alternatively, some may pay higher cash rent than they otherwise would be willing to pay. They may borrow more money than they otherwise would be comfortable borrowing and lenders may feel more secure in allowing farmers a higher degree of leverage. Unfortunately, these effects are not limited to just those producers making the decisions to pay more for land or rent. If someone is willing to pay more in cash rent, everyone in the area may end up paying the same rate.

We are also concerned about the "low end" of a shallow loss revenue program. While we understand that the payments would likely only be made on a portion of the loss, it is still double dipping. Thirty percent of the gross premium in dollars for crop insurance is now used for 80, 85 or 90 percent buy-up levels of crop insurance. If a shallow loss program covered losses on the low end of 80 percent, a producer could receive crop insurance indemnities and whatever portion of losses would be paid by a shallow loss program. If the shallow loss program covered as low as 75 percent, the overlap is increased to 57 percent of current premiums.

Alternatively, adoption of such a program could encourage farmers to stop buying higher levels of crop insurance coverage because they would know the government would provide them shallow loss coverage for free. Developing a program that allows for double dipping or encourages farmers to take less crop insurance coverage is a poor policy idea.

We encourage the committees to consider the Systemic Risk Reduction Program attached to this letter as an alternative.

Sincerely,

Bob Stallman
President