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**HEARING ON WASTE, FRAUD, AND
ABUSE IN THE FEDERAL CROP
INSURANCE PROGRAM**

Thursday, May 3, 2007

House of Representatives

**Committee on Oversight
and Government Reform**

Washington, D.C.

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Committee Hearings

of the

U.S. HOUSE OF REPRESENTATIVES



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8 | Committee on Oversight
9 | and Government Reform
10 | Washington, D.C.

11 | The committee met, pursuant to notice, at 10:00 a.m. in
12 | room 2157, Rayburn House Office Building, the Honorable Henry
13 | A. Waxman [chairman of the committee] presiding.

14 | Present: Representatives Waxman, Maloney, Cummings,
15 | Kucinich, Clay, Watson, Yarmuth, Braley, Cooper, Hodes, Davis
16 | of Virginia, Platts, Duncan, Turner, and Sali.

17 | Staff Present: Phil Schiliro, Chief of Staff; Phil
18 | Barnett, Staff Director and Chief Counsel; Brian Cohen,
19 | Senior Investigator and Policy Advisor; Margaret Daum,
20 | Counsel; Earley Green, Chief Clerk; Teresa Coufal, Deputy

21 Clerk; Matt Siegler, Special Assistant; Zongrui ``JR`` Deng,
22 Chief Information Officer; Miriam Edelman, Staff Assistant;
23 Will Ragland, Staff Assistant; David Marin, Minority Staff
24 Director; Larry Halloran, Minority Deputy Staff Director;
25 Jennifer Safavian, Minority Chief Counsel for Oversight and
26 Investigations; Keith Ausbrook, Minority General Counsel;
27 Ellen Brown, Minority Legislative Director and Senior Policy
28 Counsel; Anne Marie Turner, Minority Counsel; Patrick Lyden,
29 Minority Parliamentarian and Member Services Coordinator;
30 Brian McNicoll, Minority Communications Director; and
31 Benjamin Chance, Minority Clerk.

32 Chairman WAXMAN. The meeting of the Committee will
33 please come to order.

34 Our Committee started this year with four days of
35 hearings on waste, fraud and abuse. We examined why \$12
36 billion in cash disappeared in Iraq. We looked at the
37 problems created by our Government's growing reliance on
38 private security contractors, and we investigated the
39 calamitous Deepwater contract to build ships for the Coast
40 Guard. We also held a day of hearings on waste, fraud and
41 abuse in the healthcare system.

42 This a theme that we will return to repeatedly this
43 year. The taxpayers understand it costs money to run the
44 Government, but they can't accept rampant waste, fraud and
45 abuse that squanders their money on boondoggle programs.
46 They are looking to Congress to rein in the wasteful spending
47 and Federal giveaways that are driving our Nation deeper into
48 debt.

49 Our Committee is uniquely positioned to weed out waste,
50 fraud and abuse. Because we have Government-wide oversight
51 authority, we can look at wasteful spending with independence
52 and a fresh perspective. As we hold hearings in this
53 Committee, there will be no sacred cows.

54 The crop insurance industry is a well financed and
55 influential lobby, but in this Committee, there will be no
56 free passes. Our responsibility is to look out for the

57 taxpayer, not the crop insurers, drug companies, Federal
58 contractors, or any other special interest.

59 I am not an agriculture expert. I grew up over my
60 family's grocery store, so I know a little bit more about
61 selling produce than I know about growing it. But I know a
62 waste of taxpayers' money when I see it. What our Committee
63 will learn today is that the object of this hearing, the
64 Federal Crop Insurance Program, is costing taxpayers billions
65 of dollars.

66 Nobody can argue with the goals of the crop insurance
67 program to provide farmers and ranchers with a safety net
68 when bad weather or bad luck threatens financial ruin. But
69 from the taxpayer perspective, it is hard to imagine a more
70 costly and inefficient way of providing this safety net for
71 farmers.

72 The Federal Crop Insurance Program has become a textbook
73 example of waste, fraud and abuse in Federal spending. Under
74 this program, farmers received \$10.5 billion over the last
75 six years, but it has cost the taxpayers almost \$19 billion
76 to provide this financial protection to farmers. Over \$8
77 billion in taxpayer funds have been used for excess payments
78 to insurers and other middlemen. Somehow, about 40 cents of
79 every dollar that the taxpayers have put into the crop
80 insurance program has been for unproductive expenses.

81 The testimony from the Government Accountability Office

82 | will explain where some of this money is going. GAO has
83 | found that the private crop insurance companies are obtaining
84 | underwriting profits that are almost three times as high as
85 | industry averages. These exorbitant profits are funded by
86 | the taxpayers and farmers that pay for the program.
87 | According to GAO, over the last decade, these crop insurance
88 | companies have earned \$2.8 billion in underwriting profits.
89 | Simply reducing their underwriting profits to industry
90 | average levels would have saved the taxpayers almost \$2
91 | billion.

92 | These reports of billions of dollars in taxpayers'
93 | expenditures are the reason I am holding this hearing today.
94 | Nobody begrudges assistance to a farmer whose crop is
95 | destroyed in a natural disaster, but no one should tolerate
96 | insurance companies that skim billions from the treasury to
97 | fatten their profits.

98 | Eliminating waste, fraud and abuse is not a partisan
99 | issue, and on this Committee we are particularly fortunate
100 | that Tom Davis is our Ranking Member, and that we have
101 | Democrats and Republicans who share the commitment to putting
102 | the interests of the taxpayers first, and understand the
103 | importance of our oversight role.

104 | I am pleased that we are holding this hearing. It is
105 | not one of the usual ones. We don't have a bank of cameras.
106 | We don't have C-SPAN. We don't have all the other press

107 | covering our every move. But I think this can be as
108 | significant a hearing as any other, if we can explore ways to
109 | save the taxpayers what could amount to billions of dollars.
110 | I think there can be no more important purpose for an
111 | oversight committee.

112 | Mr. Davis?

113 | Mr. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

114 | I guess we are really down in the weeds on this one
115 | today. I want to thank you for convening this hearing. As
116 | the principal House oversight committee, we are empowered by
117 | our rules to review and study on a continuing basis the
118 | operation of Government activities at all levels with a view
119 | to determining their economy and efficiency. That is a broad
120 | mandate to look anywhere in any department or agency for
121 | profligate spending and direct reforms.

122 | This morning, we are going to focus that powerful
123 | oversight microscope on a costly program that seems uniquely
124 | and dangerously vulnerable to waste, fraud and abuse, the
125 | Federal Crop Insurance Program. In an attempt to induce the
126 | private insurance marketplace to underwrite the highly
127 | variable risks of crop blights and failures, the program
128 | subsidizes premiums and provides insurers with a generous
129 | margin to cover administrative and operating costs. The
130 | Federal Government even assumes a substantial portion of the
131 | liabilities flowing from the riskiest pool of policies.

132 But the program has not achieved its primary goal, to
133 reduce or eliminate the need for annual disaster payments to
134 farmers. In its current structure, the crop insurance system
135 offers almost no incentives to limits costs, but practically
136 invites unnecessary or fraudulent payments.

137 Today, we will hear from the Department of Agriculture,
138 the USDA Inspector General's Office, the U.S. Government
139 Accountability Office, and respected academics on efforts to
140 control a subsidy program that last year cost taxpayers \$2.5
141 billion.

142 Both the Inspector General and the GAO have made
143 recommendations to the Agriculture Department's Risk
144 Management Agency to tighten expenditure controls, recoup
145 excessive payments, prevent fraudulent claims, and strengthen
146 enforcement against those who exploit the program. We need
147 to know what progress is being made implementing those
148 recommendations; what resources are being applied to the
149 task; and what is still to be done to reduce vulnerabilities.

150 Farm bills now under consideration may attempt to expand
151 crop insurance availability and subsidies further still, so
152 the inclusion of stronger fiscal controls and enforcement
153 tools should be an urgent priority. The Administration has
154 proposed three important structural reforms to make crop
155 insurance a more effective hedge against annual disaster
156 payments, reduce administrative and operating costs, and

157 | limit underwriting gains by insurers in years when premiums
158 | far exceed paid claims.

159 | Not surprisingly, some farm groups oppose these
160 | proposals, but as we have demonstrated in the past,
161 | bipartisan oversight by this Committee can inform and improve
162 | the work of other committees trying to balance the needs and
163 | demands of various constituencies. In 2003 and 2004, our
164 | investigations, a very bipartisan investigation in fact,
165 | suggested by Mr. Waxman, of inspections and testing to detect
166 | mad cow disease brought important information to light about
167 | delays, denials and other lapses in vigilance that might have
168 | otherwise been overlooked.

169 | With this hearing, we can shine the same curative light
170 | on the crop insurance program.

171 | Again, Chairman Waxman, thank you for focusing the
172 | Committee's attention on this important Federal program. I
173 | look forward to the testimony of today's witnesses and to our
174 | continued bipartisan work to make Government more efficient
175 | and effective.

176 | Chairman WAXMAN. Thank you very much, Mr. Davis.

177 | If any member wishes to insert an opening statement in
178 | the record, the record will be held open for five days for
179 | that purpose.

180 | I do want to recognize Mr. Cooper, if you have any
181 | opening comments?

182 Mr. COOPER. Thank you, Mr. Chairman.

183 I would just congratulate you for holding this important
184 hearing. Despite the lack of cameras, this is a top taxpayer
185 issue. I congratulate you for focusing on this. Thank you.

186 Chairman WAXMAN. Thank you.

187 Mr. Braley, I know that you have a conflict in your
188 schedule. I want to recognize you at this time for any
189 comments you wanted to make.

190 Mr. BRALEY. Thank you, Mr. Chairman.

191 I want to thank you and the Committee on Oversight and
192 Government Reform, particularly you and Ranking Member Davis
193 for holding this hearing today to examine waste, fraud and
194 abuse in the Federal Crop Insurance Program.

195 My high school math teacher in Brooklyn, Iowa was a
196 Federal crop insurance adjuster during the summer time when
197 he wasn't teaching math, so this is something that I have
198 some familiarity with. I hope that the hearing will lead to
199 improvements in the Federal Crop Insurance Program which will
200 provide more benefits to farmers at lower cost, and which
201 will provide savings to American taxpayers.

202 It is my distinct privilege to welcome today Dr. Bruce
203 Babcock to our hearing. Dr. Babcock is a Professor of
204 Economics and the Director for the Center for Agricultural
205 and Rural Development at Iowa State University, my alma
206 mater. He will be testifying as part of the second panel of

207 witnesses.

208 As a proud graduate of Iowa State, one of the premier
209 agricultural institutions in the Country, and I might add,
210 the birthplace of the digital computer, I am proud to see
211 leadership from Dr. Babcock and my alma mater on this
212 important topic.

213 The Center for Agricultural and Rural Development at
214 Iowa State University was founded in 1958 and conducts
215 innovative public policy and economic research on
216 agricultural, environmental and food issues. Under the
217 leadership of Dr. Babcock, the Center's academic research and
218 public outreach programs inform and benefit State, Federal
219 and international policymakers; academic researchers;
220 agricultural, food and environmental groups; American
221 farmers; and the public.

222 Dr. Babcock has been a professor at Iowa State
223 University since 1990. As the Director for the Center for
224 Agricultural and Rural Development, he has initiated advanced
225 research on policies affecting valuation and risk management;
226 Government price support and disaster relief programs; and
227 agricultural insurance and alternatives.

228 His research has led to innovative risk management
229 strategies for farmers and has led to the development of
230 several new crop insurance products. I am very proud of the
231 fact that in 2002, Dr. Babcock was awarded the USDA Secretary

232 | of Agriculture Award for outstanding accomplishments in the
233 | area of agricultural public policy research and formulation.

234 | I would like to thank him for his leadership on this
235 | issue and for being here today. As the Chairman mentioned, I
236 | cannot be here for the entirety of the hearing due to a
237 | scheduling conflict because, Dr. Babcock, I have another
238 | hearing on the impact of renewable energy production in rural
239 | America. So I hope you take that back with my regrets to the
240 | people at Iowa State.

241 | However, I do look forward to reviewing your testimony,
242 | along with the testimony of all the other witnesses, so that
243 | we can learn about how improvements can be made to this very
244 | important Federal Crop Insurance Program to benefit America's
245 | farmers and taxpayers.

246 | Thank you, Mr. Chairman.

247 | Chairman WAXMAN. Thank you very much, Mr. Braley. We
248 | will look forward to hearing from Dr. Babcock in the next
249 | panel. We are pleased that he is here.

250 | We are pleased to welcome the first panel of witnesses.
251 | We have three witnesses on our panel today. Mr. Eldon Gould
252 | is the Administrator of the USDA's Risk Management Agency.
253 | Mr. Gould has served as RMA Administrator since November,
254 | 2005.

255 | Michael Hand, the Risk Management Agency's Deputy
256 | Administrator for Compliance will also be joining Mr. Gould

257 | at the witness table.

258 | Also joining us as a witness will be Phyllis Fong, the
259 | USDA's Inspector General.

260 | Rounding out our panel will be Lisa Shames, GAO's Acting
261 | Director for Natural Resources and the Environment.

262 | We welcome you all to our hearing today. It is the
263 | practice of this Committee to swear in all witnesses, so we
264 | are not singling you out, and we would like you if you would
265 | rise and please take the oath.

266 | [Witnesses sworn.]

267 | Chairman WAXMAN. Thank you very much. The record will
268 | indicate that each of the witnesses answered in the
269 | affirmative.

270 | Mr. Gould, why don't we start with you? There is a
271 | button on the base of the mic. Push it in and pull it close
272 | enough to you so that we can hear it and it can also be heard
273 | for the record.

274 | STATEMENTS OF ELDON GOULD, ADMINISTRATOR, RISK MANAGEMENT
275 | AGENCY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY:
276 | MICHAEL HAND, DEPUTY ADMINISTRATOR FOR COMPLIANCE, RISK
277 | MANAGEMENT AGENCY; PHYLLIS K. FONG, INSPECTOR GENERAL, U.S.
278 | DEPARTMENT OF AGRICULTURE; LISA SHAMES, ACTING DIRECTOR,
279 | NATURAL RESOURCES AND ENVIRONMENT, U.S. GOVERNMENT
280 | ACCOUNTABILITY OFFICE

281 | STATEMENT OF ELDON GOULD

282 | Mr. GOULD. Thank you, Mr. Chairman, and members of the
283 | Committee. I am Eldon Gould, Administrator of the USDA Risk
284 | Management Agency. I am also a lifelong farmer from King
285 | County, Illinois, with a 1,500 acre corn, soybean and wheat
286 | farm, and a 700 sow farrow to wean hog operation.

287 | I appreciate this opportunity to provide an update on
288 | the efforts of the RMA to improve the integrity of the
289 | Federal Crop Insurance Program. The Federal Crop Insurance
290 | Program is a partnership between the Federal Government and
291 | 16 approved insurance companies which deliver the insurance
292 | against crop failure due to natural causes for over 80
293 | percent of America's farm acreage.

294 | The program is working as it was intended and is
295 | performing well, meeting the targeted loss ratios set by

296 Congress. We still have work to do and improvements to make,
297 but we are making good progress in our fight against program
298 abuse.

299 It bears saying that the vast majority of people in the
300 Federal Crop Insurance Programs, farmers, insurance agents,
301 loss adjusters, industry professionals and Government
302 employees, are hard-working men and women acting with the
303 highest integrity and competence.

304 That being said, we are committed to doing all we can to
305 enhance and maintain program compliance through prevention,
306 detention and enforcement. We recognize that with the
307 increased workload required of our compliance people in the
308 wake of the Agriculture Risk Protection Act, we have to work
309 efficiently. RMA's compliance program emphasizes preemption
310 and deterrence in our efforts, while still aggressively
311 pursuing program abuse by assisting USDA's Office of
312 Inspector General and the Department of Justice.

313 The results from our data mining efforts have made an
314 impressive difference in avoiding undue payments to people
315 who might try to take advantage of this important program.
316 Data mining alone has achieved reductions and indemnities for
317 the selected producers of more than \$437 million since the
318 2002 crop year.

319 We also now use remote sensing, geospatial information
320 technologies, and other computer-based resources to ensure we

321 | are being good stewards of the taxpayer dollar.

322 | Our compliance personnel completed the second year of a
323 | structured random policies review in 2006, and will soon
324 | begin the third round of the three year cycle of reviewing
325 | participating insurance providers. Compliance completes the
326 | random reviews to establish a program error rate under the
327 | Improper Payments Information Act of 2002. It is noteworthy
328 | that our main observed error rate from these reviews on 600
329 | randomly selected policies was 2.64 percent.

330 | Mr. Chairman, I have here the Administration's 2007 farm
331 | bill proposal and I would like to submit it for the record.
332 | The farm bill proposes redirecting \$10 million of existing
333 | funds authorized under the Federal Crop Insurance Act to
334 | increase compliance personnel and training and expand the
335 | very effective tools that we use. The funds requested would
336 | also support data mining efforts through the continued
337 | development of our comprehensive information management
338 | system, known as CIMS. Our current outdated business systems
339 | are at the end of their expected life cycle, making it
340 | impossible to make comparisons across crop years
341 | electronically.

342 | We desperately need new IT resources to put the wealth
343 | of information we gather to the best use. The data warehouse
344 | itself, which consolidates the information from all of these
345 | databases, and is used to support the data mining efforts,

346 | must be replaced.

347 | In our 2008 budget, we have asked for \$5.4 million to
348 | replace equipment, and \$3.6 million to continue the regular
349 | operations of data mining. We also ask for approved
350 | insurance providers to share in the cost to develop and
351 | maintain a new IT system by assessing a one-half cent per
352 | dollar of premiums sold.

353 | Administration of the crop insurance program requires
354 | all interested parties to identify viable insurance products
355 | and solutions that meet the needs of the agricultural
356 | community. Working together, we will continue to maintain
357 | program integrity through prevention, detention and
358 | enforcement.

359 | I thank you for this opportunity to participate in this
360 | important hearing, and I look forward to responding to
361 | questions on these issues.

362 | [Prepared statement of Mr. Gould follows:]

363 | ***** INSERT *****

364 Chairman WAXMAN. Thank you very much.

365 Let's now go to Ms. Fong.

366 STATEMENT OF PHYLLIS K. FONG

367 Ms. FONG. Thank you, Mr. Chairman, Ranking Member Davis
368 and members of this Committee. We appreciate the opportunity
369 to be here today to testify about our views on the crop
370 insurance program.

371 As you know, we in the IG have conducted substantial
372 audit and investigative work pertaining to this program over
373 the past few years. I just want to make a few key points for
374 you today.

375 There has clearly been a significant upward trend in
376 Federal payments to assured insurance providers or insurance
377 companies for expenses in underwriting gains. Over the past
378 six to seven years, total payments to AIPs have increased to
379 record levels. The Federal reimbursement to AIPs for each
380 producer policy has increased almost 100 percent during that
381 period of time, and the Government's subsidy of premiums has
382 also increased by over 180 percent.

383 We believe that Congress has done a successful job in
384 broadening the Federal safety net for producers, but it is
385 now time to reassess what constitutes an acceptable cost to

386 | the Government.

387 | We believe that to have an effective crop insurance
388 | program, we need to have three elements. First, we have to
389 | have the proper assignment of risk between insurance
390 | companies and the Government.

391 | Secondly, we need to have effective management controls
392 | in place, including a strong quality control system.

393 | And third, we need aggressive compliance reviews and
394 | investigations to address fraud.

395 | Let me just say a few words about each of those
396 | elements. In terms of assignment of risk, we believe that
397 | currently RMA is underwriting most of the risk for crop
398 | losses. As a result, the insurance companies have less of an
399 | incentive to vigorously administer the Federal Crop Insurance
400 | Program in accordance with the Government's and taxpayers'
401 | best interests. To ensure that Federal funds are used
402 | responsibly and efficiently, AIPs need to consistently
403 | monitor risky policyholders. They need to deny claims of
404 | questionable losses, and they need to address weaknesses in
405 | their own practices.

406 | With respect to the second element of management
407 | controls, we have reported our concerns on issues such as
408 | conflict of interest among sales agents, loss adjusters and
409 | policyholders. We believe this is an area that needs
410 | increased attention.

411 We also believe that a common information system between
412 RMA and FSA is critical to improving integrity and reducing
413 the risk of improper payments.

414 Thirdly, we recognize that RMA has taken positive steps
415 to improve the quality control system, but more can be done
416 in this area.

417 With respect to enforcement, we in OIG work very closely
418 with RMA and the Department of Justice to aggressively pursue
419 fraudulent crop insurance claims and schemes. Compared to
420 fraud affecting other USDA programs, these cases are
421 particularly complex and time consuming. We find that we
422 must expend a lot of resources to pursue them because the
423 schemes are very complex. Some of the kinds of fraud that we
424 have seen include losses being claims on crops that were
425 never planted. We have seen collusion between program
426 participants to fabricate their losses. And we have seen
427 fraudulent shifting of crop production between insured and
428 non-insured parcels of land.

429 While many of the participants in the program are honest
430 and comply with the program's requirements, there have been a
431 few who have really given the crop insurance program a bad
432 name, and we feel that we need to aggressively pursue those
433 to ensure that there is an effective safety net for all
434 producers.

435 In terms of recommendations, we support many of the

436 | provisions that the Administration has included in its farm
437 | bill proposal, and we have also detailed other specific
438 | recommendations in my full written statement.

439 | Thank you again for inviting me, and we look forward to
440 | answering questions.

441 | [Prepared statement of Ms. Fong follows:]

442 | ***** INSERT *****

443 Chairman WAXMAN. Thank you very much, Ms. Fong.
444 Ms. Shames?

445 STATEMENT OF LISA SHAMES

446 Ms. SHAMES. Chairman Waxman, Ranking Member Davis, and
447 members of the Committee, I am pleased to be here today to
448 discuss RMA's efforts to address fraud, waste and abuse in
449 the crop insurance program.

450 As you know, crop insurance protects farmers against
451 financial losses caused by natural disasters. However, we at
452 the GAO recently identified the Federal Crop Insurance
453 Program to be in need of better oversight to ensure program
454 funds are spent as economically, efficiently and effectively
455 as possible.

456 Over the last five years, the crop insurance program
457 cost the Government over \$16 billion, of which nearly \$7
458 billion was paid to participating insurance companies. That
459 is, 40 cents of every dollar went to the companies, while 60
460 cents went to the farmer.

461 I plan to discuss two key points today. First, while
462 RMA has strengthened its procedures in response to
463 recommendations GAO made in 2005, regulatory and statutory
464 requirements in the program's design still hinder efforts to

465 | reduce fraud, waste and abuse.

466 | Second, compensation to the insurance companies has been
467 | excessive in light of the underwriting gains and cost
468 | allowances insurance companies receive.

469 | First, RMA has strengthened its procedure to prevent and
470 | detect fraud, waste and abuse in the crop insurance program.
471 | RMA provides information more frequently on suspect claims so
472 | that field inspections can be more timely and has drafted
473 | regulations that, when final, will allow it to use its
474 | expanded sanction authority on program violators.

475 | Positively, RMA reports cost savings of over \$300
476 | million in the form of avoided payments from 2001 to 2004.
477 | Nonetheless, we found the program's design as laid out in
478 | RMA's regulations or as required by statute, can impeded
479 | RMA's efforts in a number of ways.

480 | In terms of RMA's regulations, farmers have the option
481 | of insuring their crop in multiple units or combined as one
482 | unit. Insuring their crops in multiple units can make it
483 | easier to file false insurance claims because a farmer can
484 | shift production to one field and file a false claim for loss
485 | on the other field. We found that 12 percent of farmers
486 | identified as having irregular claims were suspected of this
487 | switching among their fields.

488 | RMA disagreed with our recommendation to reduce the
489 | insurance guarantee or to eliminate this coverage to farmers

490 | whose claims compare irregularly to others in the area.

491 | In terms of statutory requirements, RMA is obligated by
492 | law to offer farmers coverage if an insured crop is prevented
493 | from being planted because of weather conditions. It is
494 | often difficult to determine whether farmers had the
495 | opportunity to plant the crop. Also, this preventive
496 | planting coverage is expensive. RMA pays about \$300 million
497 | annually in claims.

498 | My second point this morning is that compensation to the
499 | insurance companies has been excessive. USDA pays both
500 | underwriting gains and cost allowances as negotiated in the
501 | contract with the companies, the standard reinsurance
502 | agreement, or SRA. Underwriting gains totaled \$2.8 billion
503 | from 2002 through 2006. These gains represent an average
504 | annual rate of return of 17.8 percent. This rate of return
505 | is considerably higher than the benchmark for private
506 | property and casualty insurance, which is 6.4 percent.

507 | USDA had a one time authority to renegotiate the
508 | financial terms of its SRA with the companies in 2005.
509 | Nonetheless, in 2005, the insurance companies received a rate
510 | of return of 30 percent, and in 2006 the rate of return was
511 | 24 percent. Companies received these gains despite drought
512 | conditions in parts of the Country that would normally
513 | suggest they would earn lower profits.

514 | In addition to underwriting gains, USDA paid a cost

515 allowance to the insurance companies of \$4 billion to cover
516 administrative and operating expenses for program delivery
517 from 2002 to 2006. USDA expects these expenses to increase
518 by about 25 percent by 2008 because of higher crop prices,
519 particularly for corn and soybeans. Higher crop prices
520 increase the value of the policy. This means that companies
521 will receive a higher cost allowance without a corresponding
522 increase in expenses for selling or servicing the policies.

523 Congress has an opportunity in reauthorizing the farm
524 bill to provide USDA with the authority to periodically
525 renegotiate the financial terms of the SRA so that the
526 companies' rate of return is more in line with private
527 insurance markets.

528 In conclusion, Federal crop insurance plays an
529 invaluable role in protecting farmers. Nonetheless, we
530 identified crop insurance as a program in need of enhanced
531 congressional oversight because we cannot afford to continue
532 businesses as usual, given the Nation's current deficit and
533 growing long-term fiscal challenges. RMA has made progress
534 in addressing fraud, waste and abuse, but weaknesses we
535 identified in the program design continue to leave the crop
536 insurance program vulnerable.

537 Furthermore, RMA's efforts to limit program costs has
538 had minimal effect. Congress has an opportunity in its
539 reauthorization of the farm bill to bring costs more in line

540 | with the private insurance industry. Such a step can help
541 | position the Nation to meet its fiscal responsibilities by
542 | saving hundreds of millions of dollars annually.

543 | Mr. Chairman, this concludes my prepared statement. I
544 | would be pleased to answer any questions that you or members
545 | of the Committee may have.

546 | [Prepared statement of Ms. Shames follows:]

547 | ***** INSERT *****

548 Chairman WAXMAN. Thank you very much.

549 I appreciate the testimony of all of you. I want to try
550 and see if I can understand this program a little bit more
551 precisely. Ms. Shames, 40 percent of the money that the
552 Federal Government puts into the program never makes it to
553 the farmers. That amounts to \$11 billion worth of benefits
554 designed to go to farmers that are shunted off to middlemen
555 or the insurance companies. Is that right?

556 Ms. Shames. Yes.

557 Mr. Waxman. I can't think of another program with this
558 kind of expenditure for delivery costs. The Medicare program
559 spends over 95 percent of its money actually providing
560 medical care. The administrative costs of the Social
561 Security program are less than 1 percent. But 40 percent of
562 the money we spend on the crop insurance program seems to go
563 for the administrative costs, if we are going to be nice
564 about it, just to run the program.

565 Can you think of another Federal Government program that
566 is as inefficient as the crop insurance program?

567 Ms. SHAMES. GAO has not ranked the various Federal
568 programs, but I can tell you that we did put the Federal Crop
569 Insurance Program as one of 13 programs in need of enhanced
570 oversight. This letter was sent by the Controller General to
571 the new Congress to help the new Congress.

572 Chairman WAXMAN. Administrator Gould, can you explain to

573 | us and to the taxpayers why 40 percent of the costs of your
574 | program don't ever make it to the farmers that it is supposed
575 | to help?

576 | Mr. GOULD. That seems like a lot of dollars. I would be
577 | the first to admit that. But I think you have to stand back
578 | and look at the program, that it covers the breadth and width
579 | and depth of all the producers in the United States. There is
580 | a lot of variability caused by weather in the various crops
581 | in the various parts of the Country.

582 | The other thing I think that is important is that we are
583 | required by statute to deliver the program to all producers
584 | in all corners of the United States. So obviously the
585 | delivery costs are more than they would be for some programs,
586 | and I am sure that accounts for some of the difference.

587 | Chairman WAXMAN. Well, we are dealing with a risk. That
588 | is what insurance is all about. But it seems to me what is
589 | going on is that the taxpayers are providing three separate
590 | and huge subsidies to crop insurers. Ms. Shames, I would
591 | like you to walk through how this works. First, crop
592 | insurance companies receive the benefit of billions of
593 | dollars in taxpayer subsidies to offer crop insurance to
594 | farmers. Is that right?

595 | Ms. SHAMES. Yes.

596 | Chairman WAXMAN. And they earn extraordinarily high
597 | windfall gains on these premiums. They get much more in

598 | premiums than they pay out to farmers when disaster strikes.

599 | Ms. SHAMES. USDA pays for both. Yes.

600 | Chairman WAXMAN. They have earned \$2.8 billion in
601 | underwriting profits in the last five years. Is that right?

602 | Ms. SHAMES. Yes, that is correct.

603 | Chairman WAXMAN. Okay. Then on top of these subsidized
604 | premiums, the companies also receive billions of dollars in
605 | commissions when they sell crop insurance. Basically, these
606 | are additional subsidies to cover the administrative costs.
607 | Is that right?

608 | Ms. SHAMES. Yes.

609 | Chairman WAXMAN. Over \$4 billion in subsidies in the
610 | last decade went into these commissions.

611 | Finally, we provide another taxpayer-funded benefit to
612 | insurers that we allow them to hand their riskiest policies
613 | back to the Federal Government. So the insurance companies
614 | are taking the risk, but their riskiest 20 percent of the
615 | crops that they cover, they can say to the Federal
616 | Government, well, you are going to pay all of it.

617 | Ms. SHAMES. The Government shares a large burden of the
618 | risk, yes.

619 | Chairman WAXMAN. How much of the risk do they share in
620 | the 20 percent that are the riskiest?

621 | Ms. SHAMES. About 85 percent.

622 | Chairman WAXMAN. About 85 percent. Now, the insurance

623 | companies keep a portion of the premiums, but then they are
624 | no longer responsible for paying farmers in the event of a
625 | disaster. Is that right in those circumstances?

626 | Ms. SHAMES. Right.

627 | Chairman WAXMAN. So it is really a remarkable program.
628 | We have so many different ways of subsidizing crop insurers I
629 | can barely keep track of it. We have three separate
630 | subsidies, it seems to me. Now, what if we just let people
631 | go buy private market insurance coverage? I gather that that
632 | would be so expensive that it would be unaffordable for many
633 | farmers. Is that the case, Mr. Gould?

634 | Mr. GOULD. Yes, that would be the case. It might not be
635 | unaffordable for all farmers, but certainly in areas that are
636 | marginal producing areas with problems, where the risk is
637 | greater. It would be very expensive for those producers.

638 | Chairman WAXMAN. So we want to make sure that they have
639 | this insurance coverage safety net. Is there any competition
640 | between insurance companies here? Can the farmers pick one
641 | as opposed to another, based on a lower price?

642 | Mr. GOULD. No. The insurance companies all have the
643 | same rate. The rates are actually set by the Risk
644 | Management Agency. Our goal is a rate of 1.0, so the
645 | indemnities paid are equal to the premiums. That is our
646 | rating goal. So consequently, the insurance companies
647 | compete only on service and areas that they wish to write and

648 deliver the program to the producers.

649 Chairman WAXMAN. And do most insurance companies compete
650 in the same geographical region? Or do they split up the
651 areas of the Country, and some insurance company covers one
652 area and another insurance company covers another area?

653 Mr. GOULD. Some companies compete more in one area.
654 There may be come that compete in a given area of the United
655 States. Others may specialize in the less, how shall I say,
656 populous parts of the Country. But all in all, companies are
657 entitled to write anywhere and everywhere. They actually
658 have to get licenses from different States in which they
659 write, so there isn't a lot of overlap in particular
660 companies.

661 Chairman WAXMAN. Ms. Shames, is there any other
662 insurance policy for any other potential loss where the
663 insurance companies have so little risk that they really
664 themselves are facing?

665 Ms. SHAMES. The closest analogy would be for the
666 property and casualty insurance. Of course, the benchmark
667 for that in terms of profitability is about one third.

668 Chairman WAXMAN. About one third.

669 Ms. SHAMES. Yes.

670 Chairman WAXMAN. So if we are going to guarantee
671 insurance, one thing we could do is to say we are going to
672 make sure that the subsidies are not going to be any more

673 | than property and casualty insurers.

674 | Ms. SHAMES. It would certainly be a benchmark.

675 | Chairman WAXMAN. And how much money would we be saving
676 | if we simply went to that level?

677 | Ms. SHAMES. Certainly hundreds of millions of dollars.

678 | Chairman WAXMAN. If there any fear that you would have
679 | that insurance companies wouldn't be able to continue in
680 | operation?

681 | Ms. SHAMES. Well, the expenses that they impose are so
682 | composed, in other words, in terms of their administrative
683 | and operating costs, so I would say that there is some
684 | buffer.

685 | Chairman WAXMAN. Okay. I thank you very much.

686 | I am going to call on Mr. Davis and the other members.

687 | Mr. DAVIS OF VIRGINIA. Thank you.

688 | Mr. Gould, the 2007 farm bill proposes a change
689 | requiring insurance companies to return 22 percent of their
690 | underwriting gains to the Government. What responses have
691 | you received from industry and your authorizing committee
692 | regarding this proposal?

693 | Mr. GOULD. Well, as we stand back and look at the
694 | Administration's farm bill proposals, there are a number of
695 | proposals in there to rebalance the program. You mentioned
696 | the quota share, the net book quota share as one option.
697 | There are others about reducing the A&O subsidy to the

698 | companies, and also increasing the farmer portion of the
699 | premium. All those are designed to have less exposure to the
700 | taxpayer.

701 | Mr. DAVIS OF VIRGINIA. I understand that. I am asking
702 | how industry has reacted to that, and how the authorizing
703 | committees have reacted to that, from your perspective.

704 | Mr. GOULD. From my perspective, I don't think that
705 | probably anybody wants to get up and say that they are making
706 | too much money. So I suspect the industry is going to react
707 | negatively to these proposals, but we think it is an
708 | opportunity to go back and re-balance the program and have
709 | the American taxpayers' dollars--

710 | Mr. DAVIS OF VIRGINIA. Have you gotten any receptivity
711 | on the part of the Committee to the proposal? Are they
712 | reacting to their constituents in industry?

713 | Mr. GOULD. I am sorry. I am not sure I understand.

714 | Mr. DAVIS OF VIRGINIA. Well, is the Committee saying,
715 | hey, this is a great idea; we want to write this into the
716 | farm bill; or do you think they are listening to their
717 | industry who is less receptive to this?

718 | Mr. GOULD. I think, from my perspective, in the view of
719 | the USDA, I think they are putting forth their best foot
720 | forward to re-balance the program.

721 | Mr. DAVIS OF VIRGINIA. I am asking about the Ag
722 | Committees in the House and the Senate. You have your bill.

723 We know the industry.

724 Mr. GOULD. We have talked to them, but we have not
725 gotten any feedback from them.

726 Mr. DAVIS OF VIRGINIA. They haven't said, hey, that is a
727 great idea.

728 Mr. GOULD. They have not come forward with that.

729 Mr. DAVIS OF VIRGINIA. You have no indication they are
730 going to write this into the bill at this point?

731 Mr. GOULD. They have not seen the language yet, no.

732 Mr. DAVIS OF VIRGINIA. They had a hearing on it on
733 Tuesday. What was the reaction of members to this part? Was
734 there any reaction?

735 Mr. GOULD. Not on the possibility of the companies. We
736 talked more about the supplemental deductible coverage that
737 is also one of the Administration's farm bill proposals.

738 Mr. DAVIS OF VIRGINIA. And how was the reaction to that?

739 Mr. GOULD. I would say very favorable.

740 Mr. DAVIS OF VIRGINIA. Okay. The 2007 farm bill
741 proposes to reduce subsidies for insurance company
742 administrative and operating costs by 2 percentage points.
743 The reaction there from the committee members on Ag?

744 Mr. GOULD. We did not talk about that specifically.

745 Mr. DAVIS OF VIRGINIA. Okay. So that wasn't really
746 addressed at your hearing, it would seem.

747 Mr. GOULD. No. I think the Ag Committee is waiting to

748 | see the language that the Administration is going to come
749 | forth with, and then they will act or react to that
750 | accordingly.

751 | Mr. DAVIS OF VIRGINIA. Okay.

752 | Ms. Fong, let me ask you. We know from USDA of the
753 | backlog at the Department of Justice hindered the ability to
754 | properly prosecute individuals who were committing fraud on
755 | the crop insurance program. How does this backlog affect
756 | your office's work?

757 | Ms. FONG. Well, these cases can be very, very difficult
758 | and complex because they involve multiple parties, lots of
759 | different schemes and the need to track that evidence across
760 | State lines. And the records are very difficult to find. So
761 | what we have found is that the prosecutors need to be
762 | educated on the complexities of the program. As a result, we
763 | have been very fortunate. We have found in a couple of
764 | States prosecutors who are really interested in going after
765 | these questions, and we have had some very successful cases.

766 | In other places, we engaged in education and training,
767 | and we are currently working with Justice very closely on
768 | some major investigations at the national level that we are
769 | quite optimistic about.

770 | Mr. DAVIS OF VIRGINIA. Okay.

771 | Ms. Shames, how would allowing the USDA to renegotiate
772 | the financial terms of the standard reinsurance agreement

773 | reduce the monetary waste in the program?

774 | Ms. SHAMES. Well, it gives USDA an opportunity to bring
775 | the SRAs closer in line with private industry. We feel that
776 | that is where the hundreds of millions of savings will be, to
777 | try to bring it closer to the industry standard.

778 | Mr. DAVIS OF VIRGINIA. Okay. I will just ask one
779 | question and everybody can take a stab at it. If you could
780 | just make one suggestion as to how USDA could best reduce
781 | waste, fraud and abuse in the crop insurance program, what
782 | would it be and how would it work? Top priority?

783 | Mr. GOULD. The top priority would probably be to
784 | increase our compliance budget and exposure so we could get
785 | more compliance, people on the ground; increase our IT budget
786 | so we could in fact do more data mining. That has been
787 | extremely successful in finding and prosecuting anomalies
788 | that show up in the crop insurance world. That would
789 | probably be our number one.

790 | Mr. DAVIS OF VIRGINIA. Not a change in law, just allow
791 | you to do your job, basically.

792 | Mr. GOULD. That is correct.

793 | Mr. DAVIS OF VIRGINIA. Anyone else? Ms. Fong do you
794 | have a comment?

795 | Ms. FONG. I think we should look at the basic structure
796 | of the program. We need to have more incentives for
797 | insurance companies to really make sure that they pay out on

798 | good claims. If there are questionable claims, that they
799 | really pursue those and look at them. Right now, those
800 | incentives I would say are very low, very few.

801 | Mr. DAVIS OF VIRGINIA. Ms. Shames?

802 | Ms. SHAMES. We recommended in our 2005 report that RMA
803 | and FSA conduct all these inspections in the fields that were
804 | called for. In other words, those fields that were suspected
805 | of false claims. USDA had disagreed with this recommendation
806 | because they felt they had insufficient resources to do that.

807 | Mr. DAVIS OF VIRGINIA. Thank you.

808 | Chairman WAXMAN. Thank you, Mr. Davis.

809 | Mr. Cooper?

810 | Mr. COOPER. Thank you, Mr. Chairman.

811 | I used to represent an entirely rural district. Now, I
812 | have a more urban one, but I still care deeply about farmers
813 | and their welfare. What we have heard today is pretty
814 | disturbing. It sounds like this could be one of the most
815 | wasteful programs in all the Federal Government, at least in
816 | terms of percentage of money that is not reaching the
817 | intended beneficiaries. That is pretty scary right there.

818 | We also have a situation in which the farm bill is up
819 | for reauthorization. To my knowledge, that committee has not
820 | had a single hearing so far, and there is just a little time
821 | left for a witness that is at all critical of this program.

822 | It also seems to be a situation in which the industry

823 | has given over \$1 million in campaign contributions primarily
824 | to Agriculture Committee members. The reform proposals we
825 | are hearing, better data mining and things like that,
826 | catching fraud, could be interpreted as doing more of the
827 | work for these insurance companies. The startling number
828 | that I heard was from Ms. Shames saying that the Federal
829 | Government still holds 85 percent of the risk here.

830 | Ms. SHAMES. Yes. I should point out that that is for
831 | the most risky fund.

832 | Mr. COOPER. That is an amazing situation. This sounds
833 | like corporate welfare to me. It is the Department of
834 | Agriculture, not the Department of Corporate Welfare. I
835 | looked last night at a couple of the websites for the 16
836 | companies that are in this business. If you look just at the
837 | initial page, it looks like small town America, Main Street,
838 | little towns, great States. But as you dig into the website
839 | a little bit, sometimes you will see that these are obscure
840 | subsidiaries of multi-billion dollar multinational insurance
841 | companies headquartered in Bermuda and God knows where else.

842 | If I were Mr. Gould, I would be trying to manage a
843 | situation like this. You point out in your testimony that
844 | you are a life-long farmer in Northern Illinois. That
845 | doesn't interfere with your day job here in Washington? How
846 | does that work?

847 | Mr. GOULD. Actually, when I came to Washington, it was a

848 requirement to recuse myself from the farm operation. I have
849 a son back in Illinois that is operating and managing the
850 farm. So this is my full-time position today.

851 Mr. COOPER. As a farmer or farm owner or former farmer,
852 what sort of crop insurance do you have?

853 Mr. GOULD. Prior to coming to Washington, I carried
854 primarily the CAT policy. Since coming to Washington, I
855 actually asked my son the last time I was home, I asked him
856 what kind of crop insurance do we have, and we do have a GRIP
857 policy, a gross revenue insurance protection plan. It is a
858 county-based program.

859 Mr. COOPER. Do you worry as a farmer that you are not
860 necessarily getting a good deal? The taxpayer, according to
861 the Chairman's numbers, are paying \$19 billion into these
862 sorts of programs, and farmers have gotten \$10 billion of
863 that? One of the most inefficient ratios that I am aware of
864 in any Government program?

865 Mr. GOULD. I think we need to stand back and look at the
866 program in totality. That being that we are as an agency
867 required to insure all parts of the Country, each part of the
868 Country, and some places are very sparse or high-risk crops.
869 We are still required to provide the coverage for those
870 people and those producers.

871 Mr. COOPER. I have a limited amount of time. Remember,
872 you represent the U.S. Department of Agriculture. By

873 definition, you cover the Country.

874 Mr. GOULD. Yes.

875 Mr. COOPER. Do you really need companies headquartered
876 in Bermuda and other places to help you cover the Country and
877 to pay them \$9 billion or \$4 billion for their services? If
878 the Agriculture Department did its job, you wouldn't need
879 this extra layer.

880 Mr. GOULD. I would like to point out that the companies
881 that you refer to as being headquartered in Bermuda are
882 reinsurance companies. They are the companies that insure
883 the 16 insurance companies in the United States. In the
884 Administration's farm bill proposal, we are suggesting that
885 we as taxpayers take some of that reinsurance and keep it
886 in-house, so to speak, so that would certainly reduce the
887 amount of reinsurance opportunities that would go to
888 reinsurance companies.

889 Mr. COOPER. Mr. Gould, I am not sure you heard Ms.
890 Shames. She was saying that the Federal Government has
891 already retained 85 percent of the risk for these riskiest
892 farms. So you are already the reinsurer. You are just
893 allowing the companies to reap the profits and the
894 commissions for trying to somehow augment the Federal
895 Government's capability. The Federal Government is holding
896 the bag here.

897 Mr. GOULD. We are proposing to provide or hold back some

898 | of the quota share on all the funds, not just the most risky
899 | funds. So in fact in total, the program would in fact retain
900 | much more of the premium and much more of the risk than is
901 | currently the case.

902 | Mr. COOPER. So instead of being the most inefficient
903 | program in Government, it might be the second or third most
904 | inefficient program in Government?

905 | Mr. GOULD. I don't have a way of ranking or knowing the
906 | other programs. I certainly think it would be an improvement
907 | for this program and still maintain the goals and objectives
908 | as set out by statute.

909 | Chairman WAXMAN. Thank you, Mr. Cooper. Your time has
910 | expired.

911 | Mr. Duncan?

912 | Mr. DUNCAN. Thank you, Mr. Chairman. Thank you very
913 | much for calling this hearing and calling attention to a very
914 | serious problem. I want to say that I agree with everything
915 | that my colleague, Congressman Cooper, has just said about
916 | this. I have those same concerns. I think anybody that is
917 | fiscally conservative would be horrified by what we are
918 | hearing here today.

919 | Mr. Gould, how many employees do you have in your
920 | agency?

921 | Mr. GOULD. We have a total of 500 employees in the
922 | agency, and approximately 100 of those look after the

923 | compliance function.

924 | Mr. DUNCAN. The reason I ask that, you know, every time
925 | I hear about a Federal agency messing up, which almost seems
926 | to be a daily occurrence, if they are ever questioned about
927 | it, they always say one of two things. They always say
928 | either they are underfunded and need a bigger budget; or they
929 | say their computers are out of date and not talking to each
930 | other.

931 | And yet, all these Federal departments and agencies are
932 | getting far more in funding than a comparable operation in
933 | the private sector would get, and all of them have more up to
934 | date technology, yet those are the excuses they always fall
935 | back on.

936 | When you hear these things like the Chairman has said,
937 | and Mr. Cooper, about how this program is the most wasteful
938 | or one of the most wasteful in the whole Government, does
939 | that embarrass you? Is that going to stir you into any kind
940 | of action? What are you doing to do in response to this?
941 | Are you just going to sit around and wait until we come in
942 | and increase your budget? Are you going to go back this
943 | afternoon and start doing something about this?

944 | Mr. GOULD. Thank you for the question. We are in I
945 | would say an ongoing effort to improve the program. As I
946 | have become more familiar with the program, I see some
947 | opportunities for improvement. That is an ongoing effort.

948 | However, we are limited to some degree by statute what we can
949 | do, what we can change, how fast we can change it. Our
950 | rating period looks back over a period of time to determine
951 | the proper rates.

952 | I would say, maybe contrary to the comments made here
953 | about our technology and the things we have to work with,
954 | that our budget has not kept up with our needs. We have
955 | largely kept pace with the computer program we do have by
956 | funding that through salary lapses and things of that nature.

957 | So it has become a challenge and we have to establish
958 | priorities. I think we recognize some of--

959 | Mr. DUNCAN. Let me just say this. You are surely not
960 | saying the statute now limits you. If you find out this
961 | afternoon or tomorrow that some farmer has done something
962 | crooked, you are not telling us that you can't do anything
963 | about it because of the statute, are you?

964 | Mr. GOULD. No, I am not saying we can't do anything
965 | about it. What I am saying is we are limited to some things
966 | we can do by statute in how fast we can change and adjust the
967 | program. I think as we look forward to the Administration's
968 | farm bill, that is where we see our opportunity to make
969 | changes and improve the program and, as I have said before,
970 | re-balance the program in favor of the United States
971 | taxpayer.

972 | Mr. DUNCAN. You know, we all love and respect the

973 farmers, but there is almost no industry that is more
974 subsidized by the Federal Government, except for the defense
975 industry. We just can't turn farmers into the biggest
976 welfare recipients in the Country. It says here that the
977 overall cost to the taxpayer has increased 64 percent since
978 2000. Those are years of relatively low inflation. Each
979 year ad hoc disaster assistance bills are passed that
980 provided another \$8.6 billion since 2000 on top of the
981 regular farm bills. The vetoed Iraq supplemental contained
982 another \$3.5 billion in disaster aid.

983 When you start adding in the subsidies and these crop
984 insurance payments and all these programs that the various
985 agriculture agencies have, I mean, my goodness, it seems like
986 it is almost getting out of hand.

987 Ms. Fong, you said that the best recommendation you can
988 make is to give the insurance companies more incentive or put
989 more pressure on them to not grant every claim that is made,
990 or the more questionable claims. How do we do that? How do
991 we give them incentive to do that, or put more pressure on
992 them?

993 Ms. FONG. It goes back to the basic question of who is
994 bearing the risk. Right now, the way the program is
995 structured, the Government and RMA bears the risk for claims
996 having to be paid out. What needs to happen is to have more
997 of an incentive, namely by increasing the amount of risk that

998 | the insurance companies bear would give them more of an
999 | incentive to really examine the claims that are being filed
1000 | to determine whether they truly are legitimate claims that
1001 | should be paid, or whether or not there are reasons why they
1002 | shouldn't be paid.

1003 | Right now, the way the system works, the incentive is
1004 | for the insurance companies to grant the claim and to pass
1005 | the risk along to the Federal Government.

1006 | Mr. DUNCAN. Was Congressman Cooper correct that there
1007 | are just 16 insurance companies involved in this business?
1008 | Can anybody tell me?

1009 | Ms. FONG. I believe that is correct.

1010 | Mr. DUNCAN. That is?

1011 | Thank you very much.

1012 | Chairman WAXMAN. Mr. Cummings?

1013 | Mr. CUMMINGS. Thank you very much, Mr. Chairman.

1014 | This is a hell of a deal. I am serious. I have never
1015 | seen anything like this. You know, one of the things that
1016 | frustrates me about being in Congress is that we will have
1017 | these hearings and everybody says there is something wrong.
1018 | Republicans say there is something wrong. Democrats say
1019 | there is something wrong. And guess what? Nothing happens.

1020 | We hear Mr. Gould say that his hands are tied. Ms.
1021 | Shames, are there things he can do now, so that we are not
1022 | sitting here five years from now, with everybody saying, oh,

1023 | this is so sad, and it is worse in five years. What can he
1024 | do? Let him know what he can do.

1025 | Ms. SHAMES. GAO in 2005 issued a report that identified
1026 | actions that could be taken to reduce the fraud, waste and
1027 | abuse in the crop insurance program. We made several
1028 | recommendations. ARPA gave RMA some tools to help it in
1029 | terms of--

1030 | Mr. CUMMINGS. And when was that?

1031 | Ms. SHAMES. ARPA was in 2000 and our report came out in
1032 | 2005. Just to give you a rundown of the status of the
1033 | recommendations that we made, RMA did implement our
1034 | recommendation that it should give FSA, the Farm Service
1035 | Agency, information on a more timely basis, and RMA is doing
1036 | that.

1037 | On the other hand, we also recommended that all the
1038 | claims that were suspect should be inspected. At the time,
1039 | we found that only 64 percent of those claims were being
1040 | inspected. RMA disagreed with our recommendation and they
1041 | cited insufficient resources for that.

1042 | The other thing that we found is that in terms of the
1043 | data analysis, there are about \$74 million in claims that RMA
1044 | can recoup. Although RMA agreed with that recommendation, it
1045 | has not implemented it yet. So here is something that can be
1046 | done on a real time basis.

1047 | There are also expanded sanctions that RMA has. RMA has

1048 | drafted regulations to be able to take advantage of those
1049 | expanded sanctions, but there are only in draft at this
1050 | point.

1051 | Mr. CUMMINGS. Mr. Gould, did you hear what she said?

1052 | Mr. GOULD. Yes, sir.

1053 | Mr. CUMMINGS. Can you act on some of those things and
1054 | tell us if you can, when you will?

1055 | Mr. GOULD. Certainly.

1056 | Mr. CUMMINGS. Let me try to explain this to you. You
1057 | know, we have a limited time to act. I notice what agencies
1058 | do is they wait for the next hearing, which comes a year or
1059 | two later. So I would like to hear about deadlines, time
1060 | lines, so that you get something done, a sense of urgency.

1061 | So can you do some of those things? If so, when?

1062 | Mr. GOULD. Sir, if I might, actually on the regulations,
1063 | they should be published by the end of May. They have been
1064 | drafted. They are going through clearance, and we expect
1065 | them to be out within, I have been told, three weeks.

1066 | Mr. CUMMINGS. That is one thing we can expect to see no
1067 | later than June 1?

1068 | Mr. GOULD. No later than that.

1069 | Mr. CUMMINGS. All right.

1070 | Mr. GOULD. Actually, on a couple of the other
1071 | recommendations that GAO mentioned, one of them was to share
1072 | information with FSA. We are doing that. We ran into a

1073 | problem under the Privacy Act with sharing some of the
1074 | information. FSA is in the process of publishing a notice to
1075 | inform producers of the intended use so we can use data
1076 | mining to attach those entity files that they recommended
1077 | that we use, and share those between FSA and RMA for data
1078 | mining purposes. So that is going to be done fairly soon.

1079 | I talked to our Office of General Counsel attorney that
1080 | is in charge of that, and she said as far as she knew, the
1081 | notice was moving though whatever clearance is has to go
1082 | through to get to the Federal Register to be published.
1083 | Again, I would expect that before the end of the month.

1084 | I think the only thing I would clarify is the 64 percent
1085 | of spot checks. It wasn't that RMA disagreed with doing
1086 | those spot checks. It was FSA said they didn't have the
1087 | staff to do that. That is something RMA doesn't really have
1088 | any control over. We would love to see FSA have the staff
1089 | and resources to inspect every policy that we ask them to
1090 | review for us.

1091 | Mr. CUMMINGS. I see my time is running out. What about
1092 | that \$74 million? She talked about \$74 million that we need
1093 | to be going after.

1094 | Mr. GOULD. That was the entity comparison, and actually
1095 | if you look in the back of the GAO report that was published
1096 | in 2005, we took exception to part of that. One of the
1097 | things that we took exception with publishing that number was

1098 | the assumption was that all of FSA's data was correct and all
1099 | of RMA's data was wrong. We haven't tested that to see if
1100 | that is true or not. But that is tied up in the entity files
1101 | and the Privacy Act issues that I just mentioned.

1102 | Mr. CUMMINGS. Ms. Fong, how do these fraud cases usually
1103 | come to the attention of the Government?

1104 | Ms. FONG. We receive information about potential fraud
1105 | from a number of sources. RMA is one source, if they become
1106 | aware of it. But most of our referrals tend to come from
1107 | FSA, the Farm Services Administration, or the State and local
1108 | law enforcement people. Frequently, informants will come
1109 | forward and say, hey, I know about a farmer down the road who
1110 | is perhaps sending in false information; you need to look
1111 | into it. It will come to us through State and local
1112 | enforcement.

1113 | Mr. CUMMINGS. I see my time is up. Thank you, Mr.
1114 | Chairman.

1115 | Chairman WAXMAN. Thank you, Mr. Cummings.

1116 | Just to follow up on that point, you didn't mention the
1117 | insurance companies. They don't come forward and talk about
1118 | fraudulent claims particularly because they don't have a
1119 | strong incentive to care one way or the other, do they?

1120 | Ms. FONG. I would hate to make a general statement. We
1121 | receive many allegations and we may have received some from
1122 | insurance companies. I wouldn't want to rule that out.

1123 Chairman WAXMAN. You did say they have a very low
1124 incentive to care when a fraudulent claim is submitted
1125 because, after all, it is not coming out of their pockets.
1126 Not only that, but they don't want to poison a relationship
1127 with a farmer that they want to go back next year and have
1128 him sign up for another period of time to take the insurance.
1129 Isn't that right?

1130 Ms. FONG. It is true that most of our information comes
1131 from RMA, FSA, and local law enforcement.

1132 Mr. HAND. Mr. Waxman? If I might?

1133 Chairman WAXMAN. Yes?

1134 Mr. HAND. There is a requirement under the SRA for the
1135 companies to report fraud or suspected fraud. I would agree
1136 that we think there is probably some that maybe doesn't get
1137 reported to us as timely as it should be. Whether that is
1138 because the companies don't feel the case is strong enough or
1139 for whatever reason, but we are working with them on that.
1140 It is a requirement, though, of the SRA, so if we found them
1141 in violation of that, we would take action against them on
1142 that basis.

1143 Chairman WAXMAN. I don't think that they are going to be
1144 too worried about that, but it sounds like you do have a
1145 legal basis to go after them if you find out about it.

1146 Mr. Gould, to be fair to the Administration, you have
1147 come up with a proposal in the 2007 farm package to change

1148 | some of these areas of what we are calling waste, fraud and
1149 | abuse. I am especially interested in proposals that would
1150 | improve the efficiency and effectiveness of the program and
1151 | limit waste, fraud and abuse.

1152 | Ms. Fong and Ms. Shames, have you had a chance to review
1153 | the proposals of the Department of Agriculture at the
1154 | Administration? And should Congress be considering other
1155 | approaches to limiting waste, fraud and abuse?

1156 | Ms. FONG. We have reviewed the proposals dealing with
1157 | the crop insurance program. We generally support them. We
1158 | think that they would be a good step forward.

1159 | Chairman WAXMAN. Ms. Shames?

1160 | Ms. SHAMES. We have not done a detailed review, but they
1161 | seem reasonable. As I said in my statement, we certainly
1162 | advocate that there be an authority to renegotiate in the
1163 | SRA.

1164 | Chairman WAXMAN. Well, I think the Administration is
1165 | serious about eliminating waste, fraud and abuse. We are
1166 | more than happy to work with them to do so. I think there
1167 | are additional changes that ought to be put into place in
1168 | this program. I want to discuss some of those with the next
1169 | panel. It seems to me the status quo is quite unacceptable.

1170 | I want to say we learned a tremendous amount about this
1171 | issue from this panel, and I am very concerned about where
1172 | billions of taxpayers' dollars that are going in this effort.

1173 | One of the things I will be doing after this hearing is
1174 | requesting a more detailed GAO investigation of the Federal
1175 | Crop Insurance Program. I know that GAO's investigators can
1176 | give us important information about how these taxpayer
1177 | dollars are being spent, and how we can make sure that the
1178 | crop insurance program is less wasteful. So we are going to
1179 | certainly work with you.

1180 | And then my last comment, since I have been so involved
1181 | in health issues, Medicare and Medicaid particularly, it is
1182 | astounding to me when I hear people say we have to give poor
1183 | people an incentive to hold down wasteful expenditures, so we
1184 | make them come up with out of pocket costs; we want to give
1185 | them the incentive really not to get the services, even
1186 | though in many cases, they may need it.

1187 | And here we are giving exactly the other incentive to
1188 | the insurance companies. I think it is a mistake to blame
1189 | the farmers. It is the insurance companies that are getting
1190 | overpaid. How much money does a farmer get? How much of a
1191 | percentage of his crop losses are usually covered? It is not
1192 | 100 percent. Is it 50 percent or less?

1193 | Mr. HAND. Average coverage runs between 65 percent and
1194 | 75 percent.

1195 | Chairman WAXMAN. Between 65 percent and 75 percent of
1196 | their losses are reimbursed under this insurance program?

1197 | Mr. HAND. Yes, sir.

1198 Chairman WAXMAN. Okay. Well, that certainly helps.
1199 Maybe we can give them even more, or just save the taxpayers
1200 the money if we changed the amount of money that is going to
1201 these insurance companies.

1202 I thank you very much. We appreciate your being with
1203 us.

1204 We have three votes on the House floor, so we are going
1205 to take a recess. I would expect we will reconvene at 11:30
1206 a.m.

1207 We stand in recess.

1208 [Recess.]

1209 Chairman WAXMAN. The hearing will come back to order.

1210 I am pleased to welcome our three witnesses on the
1211 second panel. Bruce Babcock is the Director of Iowa State
1212 University's Center for Agricultural and Rural Development.

1213 Dr. Bruce Gardner joins us from the University of
1214 Maryland's College of Agriculture and Natural Resources. Dr.
1215 Gardner is also an old Washington hand, having served as USDA
1216 Assistant Secretary of Economics under President George H. W.
1217 Bush.

1218 They are joined by Steve Ellis, Vice President of
1219 Taxpayers for Common Sense.

1220 We are pleased to have the three of you here today.
1221 Your statements will be part of the record in full. We are
1222 going to call on you in a minute, but as I have indicated,

1223 | all witnesses before this Committee do take an oath, so if
1224 | you would please rise and raise your right hand.

1225 | [Witnesses sworn.]

1226 | Chairman WAXMAN. Thank you very much. The record will
1227 | note that each of the witnesses answered in the affirmative.

1228 | Dr. Babcock, why don't we start with you? There is a
1229 | button on the base of the mic. We are going to have a timer
1230 | for five minutes. We would like to ask you if you can keep
1231 | your statements to around that time. We will extend a little
1232 | extra time if you need it.

1233 | STATEMENT OF BRUCE BABCOCK, DIRECTOR, CENTER FOR AGRICULTURAL
1234 | AND RURAL DEVELOPMENT, IOWA STATE UNIVERSITY; BRUCE GARDNER,
1235 | DISTINGUISHED UNIVERSITY PROFESSOR, COLLEGE OF AGRICULTURE
1236 | AND NATURAL RESOURCES, UNIVERSITY OF MARYLAND; STEVE ELLIS,
1237 | VICE PRESIDENT, TAXPAYERS FOR COMMON SENSE

1238 | STATEMENT OF BRUCE BABCOCK

1239 | Mr. BABCOCK. Thank you, Mr. Chairman, Ranking Member
1240 | Davis, and Committee members for the opportunity to
1241 | participate in today's hearing.

1242 | I have been continuously and intensely involved with
1243 | crop insurance since the early 1990s. Despite my experience,
1244 | I have only recently been able to make a judgment about
1245 | whether or not taxpayer support for crop insurance is
1246 | justified. The program is so complicated that it defies
1247 | quick understanding. But one needs to know how all the pieces
1248 | of the program work together before an informed judgment
1249 | about efficient use of taxpayer funds can be made.

1250 | The two most credible public policy objectives that have
1251 | been offered to justify taxpayer support for crop insurance
1252 | are that purely private markets would not offer farmers
1253 | enough insurance and that Congress needs a program to
1254 | eliminate ad hoc disaster assistance packages.

1255 Farmers face significant risk in their farming
1256 operations, and crop insurance clearly helps them manage this
1257 risk. But examination of the data and available research
1258 unequivocally demonstrate that most farmers would not choose
1259 to buy the type and level of crop insurance being sold today
1260 were it not for the large premium subsidies offered by the
1261 program.

1262 This lack of market demand for crop insurance seems odd.
1263 Why should farmers have to be enticed with subsidies to buy a
1264 seemingly effective risk management tool? The answer is that
1265 farmers have other more cost-effective ways to manage their
1266 risk. Diversification, off-farm work, use of marketing
1267 tools, and adoption of risk-reducing production practices all
1268 work to reduce financial vulnerability, as do the commodity
1269 programs in the farm bill. So for most farmers, crop
1270 insurance is a cost-effective risk management tool only when
1271 the cost is dramatically lowered through premium subsidies.

1272 The fact that most farmers will not buy crop insurance
1273 without substantial subsidies leaves only the second policy
1274 objective as a justification for taxpayer support.
1275 Congressional support for crop insurance has been driven
1276 mainly by the hope that enough subsidies will induce enough
1277 farmers to buy enough coverage to forestall the need for ad
1278 hoc disaster assistance. The subsidies given insurance
1279 companies, which consist of the administrative and operating

1280 reimbursement and underwriting gains, are more than enough to
1281 make it worth their while to service farmers' insurance
1282 policies.

1283 The surplus subsidies are then paid as sales commissions
1284 to crop insurance agents. The resulting commission rates are
1285 large enough in most regions of the Country to create a
1286 strong incentive for agents to work at convincing farmers
1287 that crop insurance is in their best interests. Fortunately
1288 for agents, it is an easy sell because premium subsidies have
1289 been increased to the point where most farmers find it
1290 profitable to buy crop insurance.

1291 For a long time, I have misunderstood the role that
1292 underwriting gains play in the industry. At first, I thought
1293 they were the price taxpayers had to pay to induce crop
1294 insurance companies to share in risk. But then I discovered
1295 that the actual amount of risk that is being shared is so
1296 small relative to the price that we pay that companies are in
1297 fact being paid substantially more than the market price of
1298 the risk they bear.

1299 So I looked elsewhere for an explanation. I now believe
1300 that large underwriting gains paid to companies serve two
1301 purposes. First, they are a complicated mechanism to
1302 increase the amount of money that can be used to pay agent
1303 commissions. Higher agent commissions translate into more
1304 insurance being sold, so large underwriting gains are

1305 | consistent with the objective of getting more farmers to buy
1306 | insurance.

1307 | The second purpose is that underwriting gains do serve
1308 | the purpose of creating some incentive for companies to
1309 | combat fraudulent claims. After all, when companies share in
1310 | losses, which they do to some extent, they have a greater
1311 | incentive to challenge bogus claims.

1312 | The taxpayer costs of using crop insurance as a means of
1313 | eliminating disaster assistance is significant. Since 2001,
1314 | the program has cost taxpayers \$18.7 billion. Farmers have
1315 | received \$10.5 billion of this amount. The difference is the
1316 | amount of money that has been used to induce farmers to buy
1317 | crop insurance and to service the sold policies.

1318 | In essence, Federal tax dollars have been used to create
1319 | an industry for only one purpose: to contract out the
1320 | delivery of disaster assistance. One way to judge whether
1321 | taxpayer support for this industry is efficient or wasteful
1322 | is to compare taxpayer costs of crop insurance with the
1323 | resulting reduction in disaster payments. I think that the
1324 | calculus on this question has been made quite easy by
1325 | inclusion of yet another disaster payment package in the
1326 | recently vetoed Iraq War funding bill.

1327 | I believe that generous taxpayer support for crop
1328 | insurance has not succeeded in its stated purpose and it is
1329 | now time to look for another way to help farmers to get

1330 | through crop disasters. Fortunately, a way forward is now
1331 | open because the House and Senate Ag Committees are trying to
1332 | determine what to do with the 2007 farm bill. I would hope
1333 | that members of these committees are considering proposals
1334 | for how the farm bill safety net can be integrated with the
1335 | crop insurance safety net to automatically and directly
1336 | provide the kind of support that farmers expect when disaster
1337 | strikes. Both taxpayers and farmers would enjoy the benefits
1338 | of this type of smart reform.

1339 | Again, thank you for this opportunity to share my
1340 | thoughts about the crop insurance program. I will be happy
1341 | to answer any questions later.

1342 | [Prepared statement of Mr. Babcock follows:]

1343 | ***** INSERT *****

1344 Chairman WAXMAN. Thank you very much. Excellent
1345 testimony.

1346 Dr. Gardner?

1347 STATEMENT OF BRUCE GARDNER

1348 Mr. GARDNER. Thank you, Mr. Chairman and members of the
1349 Committee. I appreciate the opportunity to address some
1350 issues of waste and inefficiency in the crop insurance
1351 program.

1352 I am going to focus on three problem areas: First, crop
1353 insurance as related to disaster payment programs; second,
1354 the low benefits farmers get from crop insurance subsidies as
1355 compared to the cost of the subsidies for the taxpayer; and
1356 third, some issues in the land use and environmental effects
1357 of subsidized crop insurance.

1358 I should note that I am currently involved with a
1359 project for the American Enterprise Institute that has
1360 commissioned 21 papers on a range of farm bill topics. One
1361 of those focuses on crop insurance. That paper goes into
1362 further depth on all three of these issues.

1363 So first, crop insurance and disaster payments. The
1364 powerful history here, I think we should go back even to 1938
1365 when we started with subsidized Federal crop insurance after

1366 | several decades of unsatisfactory experience, basically the
1367 | losses were too high, but yet still farmers participated in
1368 | the program. Congress introduced a disaster payments program
1369 | in the 1973 farm bill, which I think is one of the most
1370 | interesting experiments we have had in this area.

1371 | This program was essentially crop insurance with no
1372 | premiums charged. This was popular, of course, but the
1373 | program had high budget costs. It was criticized by the
1374 | General Accounting Office for encouraging farmers to plant on
1375 | marginal acreage and for reducing farmers' incentives to take
1376 | preventive measures against crop loss.

1377 | By 1980, President Carter was moved to comment that the
1378 | disaster payments program had itself become a disaster. In
1379 | 1981, Congress ended the program, which I think shows that
1380 | Congress is capable of making adjustments when the evidence
1381 | is overwhelming that they have to be made.

1382 | After 1980, policy moved back in the direction of bigger
1383 | subsidies on Federal crop insurance. The idea was that ad
1384 | hoc disaster programs and subsidized crop insurance were
1385 | substitutes, and that the appropriate establishment of crop
1386 | insurance would preclude the need for disaster bills.

1387 | This hope has not been realized. After boosts in
1388 | spending on crop insurance subsidies in the mid 1990s and
1389 | again after 2000, spending on insurance subsidies was still
1390 | further increased, yet spending on ad hoc disaster payments

1391 | did not decline, but rather increased further. In 2003 to
1392 | 2006, Federal budget outlays on both programs together
1393 | averaged \$4.9 billion a year, or about four times the levels
1394 | of the 1980s.

1395 | Was this just because nationwide crop failures were
1396 | worse? No. Indeed, U.S. crop yields were at or above the
1397 | trend levels in this period. The problem is more a matter of
1398 | not being able to convince some farmers to buy even highly
1399 | subsidized insurance when experience has revealed that a
1400 | serious disaster will be followed by an ad hoc relief
1401 | program.

1402 | Now, the second thing I want to mention briefly is that
1403 | benefits and costs of crop insurance, and we have heard a lot
1404 | about this already, but I think one would have to recognize
1405 | that even if we do spend a lot on crop insurance subsidies,
1406 | that could be worthwhile if the benefits to producers were
1407 | sufficient.

1408 | In fiscal years 2003 to 2005, an average of \$3 billion
1409 | in insurance indemnity payments were paid out to producers.
1410 | However, while farmers' insurance premiums are subsidized,
1411 | they still paid an average of \$1.5 billion annually during
1412 | these years to buy their coverage. Therefore, the net
1413 | benefit from the crop insurance to farmers was \$1.5 billion
1414 | annually.

1415 | The Government's cost is the premium subsidies paid plus

1416 | delivery costs. These costs added up to \$4 billion annually
1417 | in 2003 to 2005. Plus, in this period, the Government
1418 | incurred \$4 in budget costs for every \$1.50 in net benefits
1419 | that producers received. This an inefficient transfer, as we
1420 | have heard already many times.

1421 | The direct payment commodity programs that we have, that
1422 | spend actually quite a bit more money, are criticized in many
1423 | ways, but at least the money the Government spends on those
1424 | programs goes directly into farmers' pockets almost entirely.

1425 | Finally, I want to just mention briefly the third topic
1426 | of land use and the environment. The history of crop
1427 | insurance and disaster payment programs provides ample
1428 | evidence that the programs encourage farmers to grow riskier
1429 | crops and grow them on more vulnerable land than would
1430 | otherwise occur. An Economic Research Service study
1431 | estimates that about one million acres are devoted to grain
1432 | and cotton production that would not be in the absence of
1433 | subsidized crop insurance. More than half this acreage is on
1434 | the Great Plains.

1435 | As one would expect, crop insurance subsidies encourage
1436 | production in the areas of highest weather risk. These are
1437 | the same areas that are targeted under the Conservation
1438 | Reserve Program for taking such land out of crop production
1439 | and placing it in soil conserving uses. So we have a
1440 | tendency to be undoing with crop insurance subsidies what we

1441 | are doing with conversation policy.

1442 | So in summary, subsidized crops insurance has an
1443 | honorable history as an attempt to assist farmers in risk
1444 | management, but it has proven far too costly in terms of cost
1445 | to taxpayers per dollar of benefits received by farmers. It
1446 | has not precluded ad hoc disaster programs, and it has
1447 | induced production on marginal land.

1448 | I believe the Nation would benefit from an end to these
1449 | subsidies completely and just let crop insurance be sold on a
1450 | regular market basis like other insurance policies are.

1451 | Thank you.

1452 | [Prepared statement of Mr. Gardner follows:]

1453 | ***** INSERT *****

1454 Chairman WAXMAN. Thank you very much, Dr. Gardner.
1455 Mr. Ellis?

1456 STATEMENT OF STEVE ELLIS

1457 Mr. ELLIS. Thank you.

1458 Good morning, Chairman Waxman, Ranking Member Davis,
1459 Representative Cooper. Thank you for inviting me here to
1460 testify on the Federal Crop Insurance Program. I am Steve
1461 Ellis, Vice President of Taxpayers for Common Sense, a
1462 national, nonpartisan budget watchdog organization that has
1463 studied agriculture subsidies since our inception in 1995.

1464 I want to take this opportunity to applaud the critical
1465 work that this Committee is undertaking. The Committee's
1466 broad portfolio enables it to identify important trends and
1467 problems across the Federal Government and to approach
1468 programs with an independent and unbiased eye, which is often
1469 difficult for committees of original jurisdiction to do.
1470 Tellingly, we have not seen this type of oversight hearing in
1471 the Agriculture Committee.

1472 The crop insurance program has been an expensive
1473 failure. It has failed to end disaster payments. We
1474 practically have to pay for farmers to take out insurance.
1475 The only winners here are the insurance companies. To put it

1476 | in perspective, in 2005 insurers got more than \$1.7 billion
1477 | to provide crop insurance, while taxpayers in toto spent \$3.1
1478 | billion on a program that delivered slightly more than \$750
1479 | million in payments to farmers.

1480 | In 1980, as has been discussed, the Government shifted
1481 | to private companies to administer and grow the insurance
1482 | program. Existing crop subsidies were increased even more in
1483 | 1994 and 2000, and now premium subsidies average roughly 60
1484 | percent. That is to say, out of every dollar a private
1485 | insurer is charging for crop insurance, the farmer is paying
1486 | 40 cents, while the taxpayer picks up 60 cents. This is an
1487 | enormous subsidy by any measure.

1488 | In addition, the Federal Government pays insurance
1489 | companies to sell and administer policies. These
1490 | administrative and operating subsidies run about 21.5 cents
1491 | on the premium dollar. But the largest A&O expense for the
1492 | companies is the agent commissions for the policies they
1493 | sell. Some agents are paid up to 20 percent of the premium on
1494 | their policies.

1495 | In many ways, insurance is like gambling, but in a
1496 | bizarre twist, the insurance companies are the house and the
1497 | Federal taxpayer is the perpetual loser. This program has
1498 | become less about crop insurance for farmers and more about
1499 | revenue assurance for insurance companies.

1500 | This is not to say that farmers are ignorant of their

1501 risk. Considering that theirs is one of the world's oldest
1502 professions, as Dr. Babcock indicated, farmers have found
1503 means to diversify their risk. Crop rotations, irrigation
1504 and farming multiple crops are all forms of limiting risk.
1505 In addition, many farms receive significant amounts of
1506 off-farm income. So it is fair to say that farmers do quite
1507 a bit of risk management without any Federal subsidies and
1508 without the Risk Management Agency. In fact, these farm
1509 level risk management techniques help explain why such large
1510 premium subsidies are required to induce farmers to purchase
1511 crop insurance.

1512 Federal insurance programs are always inefficient. The
1513 Federal Government is always the insurer of the last resort,
1514 so insurance programs are foisted upon the Government as a
1515 reaction to a perceived market failure, whether real or
1516 imagined. But even by Federal insurance program standards,
1517 the crop insurance program is incredibly inefficient. Under
1518 the current agreement, insurers are able to shift their
1519 high-risk policies onto the Federal Government and keep the
1520 lower-risk policies in their portfolio, in effect maximizing
1521 each company's gain in good years and minimizing losses in
1522 bad years.

1523 From our experience, expensive, complex and inefficient
1524 is a ready made recipe for waste, fraud and abuse. To tackle
1525 waste, fraud and abuse, you have to tackle the crop insurance

1526 | program's overall expense, complexity and inefficiency. The
1527 | interplay between subsidies for program crops, crop
1528 | insurance, and disaster assistance must be examined more
1529 | closely.

1530 | After examining all of these questions, a few clear
1531 | answers come to the surface. Disaster assistance must be
1532 | ended. In the latest example of crop insurance failing to
1533 | end disaster payments, there is \$3.5 billion in agriculture
1534 | disaster spending in the emergency supplemental bill. Since
1535 | the 1994 expansion of crop insurance premium subsidies,
1536 | Congress has approved more than \$36 billion in agriculture
1537 | disaster assistance. The Chairman of the Agriculture
1538 | Committee in the House wants to create a permanent disaster
1539 | title in the upcoming farm bill.

1540 | The prospect of disaster assistance undercuts crop
1541 | insurance and at the very least encourages under-insuring.
1542 | Farmers, like all businesses, should adequately insure, and
1543 | if they choose not to, they should not be bailed out by the
1544 | taxpayer.

1545 | Create effective incentives and disincentives.
1546 | Encourage individual farmers to diversify risk and reduce
1547 | exposure by providing reduced premiums as an incentive.
1548 | Premium subsidies should be a reward, not a right. Base
1549 | revenue insurance plans on total income. Increase mandatory
1550 | insurance levels and deny crop subsidies for farmers who do

1551 not adequately insure. And finally, use Farm Service Agency
1552 officials to enforce and police crop insurance policies and
1553 enact strong punitive actions for abusers of the program.
1554 And lastly, increase competition.

1555 It is time to scrap the Soviet style planned economy
1556 that dominates crop insurance. If there is non-competition,
1557 then the value of having private insurers serve as crop
1558 insurers evaporates. Since Government currently bears
1559 virtually all the risk anyway, shifting some of all of the
1560 program background to the Government operations should be an
1561 option.

1562 Again, I want to thank the Committee for holding this
1563 hearing and inviting Taxpayers for Common Sense here to
1564 testify. With the farm bill expiring later this year, this
1565 is an important time to consider this important issue. I
1566 would be happy to answer any questions you might have.

1567 [Prepared statement of Mr. Ellis follows:]

1568 ***** INSERT *****

1569 Chairman WAXMAN. Thank you very much for your testimony.

1570 I am trying to think through how we can accomplish the
1571 goals that were set out in the creation of this program, and
1572 do it in a way that makes the most sense.

1573 The first goal was to stop the Government from having to
1574 pay after the damage has already been incurred, because the
1575 Congress is very softhearted and we hate to see disasters,
1576 and people suffer, so we always come in afterwards. I gather
1577 that none of you thinks this crop insurance subsidy program
1578 has kept us from coming in with relief after the damage is
1579 incurred to add to the insurance payments. Is that a correct
1580 statement? All of you are shaking your heads.

1581 Mr. Ellis?

1582 Mr. ELLIS. Absolutely. We spent billions of dollars
1583 since we increased the subsidy, so clearly it is not even our
1584 opinion. It is reality, Mr. Chairman.

1585 Chairman WAXMAN. What is the market failure here? If a
1586 farmer wanted insurance in the private market, one would
1587 think he could go out and buy it. Now, the argument was made
1588 that it is just too expensive. Farmers can't afford it, so
1589 we have to help them buy this insurance. If I understand Dr.
1590 Gardner's testimony, you don't think that farmers always want
1591 this insurance even if it is affordable. Of course, if we
1592 are paying for it, they will take it.

1593 Is there a market failure? Or is there just not really

1594 | a good enough market for people to buy this insurance? Why
1595 | should the Government substitute our judgment over that of
1596 | the farmer?

1597 | Mr. GARDNER. Well, I would say I agree with you. There
1598 | is no pervasive market failure. You see problems with
1599 | markets in insurance of all kinds. The most difficult one I
1600 | think in crop insurance is sometimes the farmers have a
1601 | better idea of their situation and can buy no more than the
1602 | insurance company does, and you have an adverse selection
1603 | problem.

1604 | But the Government has no solution for that problem, and
1605 | in fact probably does less well at dealing with it than the
1606 | private insurance companies do. So I don't see a market
1607 | failure. I think that good evidence of that is in other
1608 | areas where farmers bear risks, they do buy hail insurance;
1609 | they buy fire insurance; they buy liability insurance just
1610 | like any other citizen does. It is unsubsidized and the
1611 | market works.

1612 | Chairman WAXMAN. Dr. Babcock, you don't seem to go as
1613 | far as Dr. Gardner in suggesting to eliminate the program and
1614 | letting the market work as well as it is going to, letting
1615 | the farmers make a decision. What would you do instead? Do
1616 | you think there is still a purpose for a crop insurance
1617 | program?

1618 | Mr. BABCOCK. I think the evidence is clear that farmers

1619 | will not buy the kind of coverage that is needed when this
1620 | one out of whatever year event occurs, and a true disaster
1621 | hits. So that when that occurs, there is going to be pressure
1622 | to have some sort of an assistance program after the fact. I
1623 | don't think it is sufficient just to be able to say, well,
1624 | you didn't buy insurance so we are not going to help you. I
1625 | think that ignores political reality.

1626 | Fortunately, though, we have something called the farm
1627 | bill that is supposed to be providing a safety net to
1628 | farmers. Why not just design that farm bill in such a way
1629 | that it automatically would direct payments to regions that
1630 | would in fact deliver the aid when it is actually needed? I
1631 | think that smart reform of the commodity policy can create a
1632 | safety net that would do away with disaster assistance and
1633 | would take on much of the risk of the crop insurance at the
1634 | same time.

1635 | Chairman WAXMAN. So you would use Federal funds to set
1636 | up a pool of money to compensate farmers when a disaster
1637 | occurs. Is that right?

1638 | Mr. BABCOCK. That is right. It would be automatic.
1639 | Farmers would know that they are getting it, and would adjust
1640 | their operations accordingly. I would not do it at the
1641 | individual farm level, because that means that they are going
1642 | to be farming for the program. Rather, I would do it when a
1643 | disaster hits. It is likely that almost all farmers in a

1644 | county, for example, would suffer that same loss. And so I
1645 | would do it at the county level.

1646 | Chairman WAXMAN. So you would have a Government program,
1647 | and then eliminate the private insurance completely.

1648 | Mr. BABCOCK. Mr. Gould said that his son had purchased
1649 | something called GRIP, group risk income protection.
1650 | Basically, if I had a way of designing a policy, I would have
1651 | the Federal Government, through the farm bill, basically
1652 | offer that kind of a program to farmers as a replacement for
1653 | the subsidy programs they have now. Then I would allow the
1654 | crop insurance industry to write supplemental coverage on top
1655 | of that that would cover individual farm-level risks, and
1656 | then let the private market offer that if farmers really need
1657 | additional risk protection. And let the market decide how
1658 | much risk protection they need.

1659 | Chairman WAXMAN. How much would you cover? What
1660 | percentage of the loss would the Government insurance program
1661 | cover?

1662 | Mr. BABCOCK. At the county level, which is different
1663 | than the farm level--at the farm level, it would not cover
1664 | anything for free. It would be up to the farmer to decide
1665 | how much individual farm-level coverage they bought. Let the
1666 | market determine that.

1667 | At the Federal Government level, it would be on the
1668 | order of you have at least a 10 percent drop in let's say

1669 | county yield before payments would commence. So you would
1670 | have a 10 percent deductible.

1671 | Chairman WAXMAN. Have any of you looked at possible
1672 | competition? Is there some way to give incentives for
1673 | competition and let the private insurance companies compete
1674 | for the business, and then let the farmer decide if he wants
1675 | to buy one policy as opposed to another? If he doesn't want
1676 | go with any, it is his or her choice.

1677 | Dr. Gardner?

1678 | Mr. GARDNER. Well, I am not an expert on the ins and
1679 | outs of the insurance industry, but your question reminds me
1680 | of an approach that Senator Lugar had introduced in the farm
1681 | bill discussions in the Senate Agriculture Committee several
1682 | times, which is in order to help farmers with their risk
1683 | management problems, have the Government just provide a
1684 | general subsidy, as we do along the lines Bruce was saying,
1685 | but let the farmers decide how to spend it. They will have
1686 | the kind of money they now get from support programs, but
1687 | maybe not quite so much, and let them decide what to buy.
1688 | Then the competition will arise.

1689 | Who can satisfy the farmers' real needs for this
1690 | protection in a market of competition, not only with
1691 | insurance, but for a while they were even county or area-like
1692 | yield contracts that you could buy on the Chicago Board of
1693 | Trade. There are a number of ways, a number of mechanisms

1694 | that could provide contingent assets that increase in value
1695 | when bad things happen. I would say I just wouldn't want to
1696 | limit it to crop insurance. Let the whole range of risk
1697 | management tools be made available.

1698 | Chairman WAXMAN. Thank you.

1699 | Mr. Davis?

1700 | Mr. DAVIS OF VIRGINIA. I want to ask what happens if we
1701 | in the ag bill this year just abolish the program? How would
1702 | the market respond if we abolished the Federal subsidies?
1703 | Would the private markets react? How would the farmers react
1704 | to it at that point? And what would be the result? We
1705 | always have the right to come in if someone were hard hit and
1706 | give them the appropriate payment.

1707 | Mr. GARDNER. Are you referring to all the commodity
1708 | programs?

1709 | Mr. DAVIS OF VIRGINIA. No, just this.

1710 | Mr. GARDNER. Just this one. Well, what would happen
1711 | right away, of course, is it would be a big upheaval in the
1712 | crop insurance industry. What would happen to farmers is
1713 | they would have to figure out what is being offered very
1714 | quickly.

1715 | Mr. DAVIS OF VIRGINIA. I am just asking for a prediction
1716 | of the market. Somebody would somewhere offer some
1717 | insurance.

1718 | Mr. GARDNER. Yes, I believe they would, but the market

1719 | would--

1720 | Mr. DAVIS OF VIRGINIA. It would save the taxpayers a lot
1721 | of money, at least on the front side. If you had a bad year,
1722 | we may come on the backside and end up with some subsidies
1723 | that we hadn't intended. I don't know the answer to that,
1724 | which is what I am asking.

1725 | Mr. BABCOCK. I will make a prediction of what would
1726 | happen. I think that if the insurance companies were to
1727 | offer the same products without the subsidies, that farmers
1728 | would immediately go and buy GRP, group risk protection. It
1729 | is an area yield. It is very cost-effective. And then they
1730 | would buy private hail insurance on top of that. At least in
1731 | my area of the Country, the hail insurance often strikes an
1732 | individual farm, but not the county. So the GRP would cover
1733 | them very cost-effectively for a very small amount of money,
1734 | then hail insurance would cover them for their primary other
1735 | risk, other than drought.

1736 | Mr. DAVIS OF VIRGINIA. Would they be out of pocket more
1737 | than they are?

1738 | Mr. BABCOCK. About the same, basically, because right
1739 | now the system is set up to drive farmers to buy the most
1740 | expensive policy they can, because agents get paid more, the
1741 | Federal subsidy goes up, the more money that farmers pay. So
1742 | in fact, they are incentivized to buy the bells and whistles
1743 | policy.

1744 Mr. DAVIS OF VIRGINIA. Just let the market system work
1745 here, is what you are saying. It would respond appropriately
1746 and the Federal Government would be out of it and we would
1747 save taxpayers' dollars and you would have about the same
1748 coverage for the same cost, or close to it--not the same
1749 coverage, but you would have adequate coverage.

1750 Mr. BABCOCK. You would have cost-effective coverage that
1751 farmers, I think, would fill the needs of what farmers
1752 demand.

1753 Mr. DAVIS OF VIRGINIA. Mr. Ellis, do you have any
1754 prediction of what would happen?

1755 Mr. ELLIS. No. I would absolutely agree with the way
1756 you are going on this. I think that in the last decade or 15
1757 years, the insurance sector, not just crop insurance, but
1758 really the insurance sector writ large, has dramatically
1759 changed, basically after Hurricane Andrew, where they have
1760 been able to securitize risk. You can trade risk. The
1761 reinsurance market is quite large and significant. So there
1762 has been a dramatic change in the insurance industry that I
1763 think that if we allowed that to have more of a competition
1764 for crop insurance, that would definitely drive that.

1765 And then the other issue here is that right now, farmers
1766 are being in essence bribed to buy crop insurance. We are
1767 paying 60 percent of the premium to try to get them to buy
1768 crop insurance.

1769 | Mr. DAVIS OF VIRGINIA. They can't afford not to.

1770 | Mr. ELLIS. Right, right. So then it is just a question
1771 | of if you remove that, and they realize that they are going
1772 | to have to take matters into their own hands, I think that
1773 | some of these things more designed to their needs, as Dr.
1774 | Babcock has indicated, those type of policies will start to
1775 | percolate out. The insurance industry is a business. They
1776 | are going to make money and there are ways to make money. I
1777 | always point out, Liberace could insure his fingers, so just
1778 | about anybody can insure just about anything. It just
1779 | depends on what the cost is.

1780 | Mr. DAVIS OF VIRGINIA. That is exactly right. But
1781 | reform is unlikely to come out of the Agriculture Committee,
1782 | isn't it?

1783 | Mr. ELLIS. They are certainly not a reform minded
1784 | institution as far as making big changes. That actually does
1785 | get to some of Dr. Gardner's points as well, which is what
1786 | Agriculture has talked about is the three legged stool. You
1787 | have crop insurance; you have disaster payments; and you have
1788 | crop subsidies, the program crops. I think that really you
1789 | have to look at all three of those because they do
1790 | interrelated, and the different issues of them drive certain
1791 | policies. People are buying certain types of crop insurance
1792 | because of the program subsidies, and these all have
1793 | interrelated effect.

1794 So I think that while I definitely agree that getting
1795 rid of crop insurance makes a lot of sense, I think you want
1796 to look at the other issues within the farm program. We are
1797 certainly not a big fan of the commodity title, Title I in
1798 the program crop subsidies, and it would be worthwhile to
1799 look at that and how to make those work better together.

1800 Mr. DAVIS OF VIRGINIA. I am not advocating. I am just
1801 asking. I think we need to ask the question, how would the
1802 markets respond on their own. We don't allow them to respond
1803 on their own because you have so many of these different
1804 Government gimmicks along the way. That is my question.

1805 Thank you, Mr. Waxman.

1806 Chairman WAXMAN. Thank you, Mr. Davis.

1807 Mr. Cooper?

1808 Mr. COOPER. Thank you, Mr. Chairman.

1809 During the previous vote, I talked to a colleague that
1810 is on the House Agriculture Appropriations Committee.
1811 Apparently, USDA testified there yesterday that all they
1812 needed was more staff money for raises, nothing for
1813 compliance, and a little bit more money for IT. So they
1814 don't seem to have gotten the message that reform is
1815 necessary.

1816 Help me understand, Dr. Babcock, hail insurance and GRP
1817 insurance. Is that completely private and unsubsidized? How
1818 does that work?

1819 Mr. BABCOCK. No. GRP is a federally subsidized and
1820 reinsured, just like a regular crop insurance product. What
1821 it was was an idea of trying to get farmers not to worry
1822 about so much compliance issues because their losses would be
1823 paid by the county.

1824 Hail insurance was a robust private insurance market up
1825 until ARPA subsidies in 2000 were greatly increased. Then
1826 farmer participation in hail insurance went down.
1827 Essentially, the private sector got crowded out because the
1828 subsidies for multi-peril crop insurance became so large that
1829 hail insurance is a proven private product that can be
1830 offered privately.

1831 Mr. COOPER. So the Government in 2000 helped kill this
1832 private sector offering, or reduce it substantially.

1833 Mr. BABCOCK. It reduced it. It is still offered, but
1834 the demand for it has gone down because the multi-peril
1835 products cover essentially a lot of the same risk.

1836 Mr. COOPER. In your testimony, when you predict that
1837 under current CBO protections, crop insurance programs will
1838 cost taxpayers an average of more than \$5 billion per year
1839 over the next five years or \$25 billion, does that include
1840 GRP insurance?

1841 Mr. BABCOCK. It does, but not very many farmers buy GRP
1842 because it is a very low cost program. If the Government is
1843 paying 60 percent of the premium, why would you want to

1844 minimize your own expenditure? So essentially the fastest
1845 growing crop insurance product out there is this GRIP
1846 product. GRIP-HRO it is called. It is an acronym. It is the
1847 most expensive product out there. It is the fastest growing
1848 product, and not as surprising, it is the one with the
1849 highest premium.

1850 Mr. COOPER. A few months ago, I had the pleasure of
1851 questioning the Secretary of Agriculture in a Budget
1852 Committee hearing. I asked him how many field offices he
1853 had. He said 3,800. I asked how many of those offices were
1854 located in counties that no longer had any farms period, and
1855 he said he would get back to me on that. But that is one of
1856 the most extensive networks of Government offices for any
1857 Federal agency.

1858 One of you suggested in your testimony, it might have
1859 been Dr. Gardner--no, I think you suggested actually ending
1860 the program. I think it was Dr. Babcock that said maybe we
1861 should link participation in government subsidy programs with
1862 purchasing coverage, because if we have 3,800 offices and
1863 farmers have to go visit those offices anyway, that is a
1864 point of sale that is infinitely more efficient than 20
1865 percent commissions that are being paid by these 16 crop
1866 insurance companies.

1867 Does something like that make sense? If you want to
1868 participate in the subsidy programs, you have to do something

1869 | yourself to insure against the risk.

1870 | Mr. GARDNER. That kind of things has been tried. We did
1871 | that after some of the disaster payments programs, to require
1872 | filings in one of the commodity programs to have some crop
1873 | insurance coverage.

1874 | Mr. COOPER. Another thing that struck me, and the
1875 | Washington Post pointed this out, that recipients of disaster
1876 | payments, that that information is private. No one is
1877 | allowed to know. Why do you have a right to privacy when you
1878 | get a large Government check like that due to hail or flood
1879 | or drought, or whatever?

1880 | Mr. GARDNER. I don't know.

1881 | Mr. COOPER. So that is something Congress did on its
1882 | own, to hide the recipients of these payments. It is not
1883 | like their neighbors don't know, because it is pretty
1884 | apparent what is on your farm.

1885 | It strikes me that there are number of folks who like
1886 | farming the land, and there are some folks who like farming
1887 | the taxpayer, and farming the taxpayer is probably a more
1888 | lucrative undertaking.

1889 | I want to quote for a second from the Post article
1890 | talking about a Kansas farmer, Mark Orebaugh. It says, ''For
1891 | Mark Orebaugh and most Kansas farmers, the Federal insurance
1892 | is 'a good deal.' In the past four years, he has paid
1893 | \$81,730 in premiums, but collected \$295,796 in claims, or

1894 | \$3.62 for every dollar he put in. That is higher than the
1895 | State average, but Orebaugh farms on the western side of
1896 | Kansas, where water is scarce and much of the farmland is not
1897 | irrigated.'' It goes on to say, ''There is just no water
1898 | here. We probably should never have developed these fields
1899 | when we did 30 years ago, because the water table was
1900 | declining.''

1901 | So that is Dr. Gardner's point, a lot of marginal land
1902 | that really shouldn't be farmed is being kept in production
1903 | at taxpayer expense, just due to the existence of these
1904 | subsidy programs. But here is a man whose has four time more
1905 | money than he paid in in premiums, because of farming the
1906 | taxpayer.

1907 | So land almost becomes irrelevant if you can gain the
1908 | premiums and the payouts right, and the weather goes along,
1909 | you can do quite well.

1910 | Mr. GARDNER. I would just like to say, though, that is
1911 | it no picnic farming those really risky areas. I wouldn't
1912 | want to do it. So I wouldn't put it so much that the farmers
1913 | in those areas, like in the old disaster payments program,
1914 | where it was quite clear that there were counties that
1915 | weren't even eligible for the subsidized Federal crop
1916 | insurance, were eligible for the disaster payments program,
1917 | and wheat acreage rose substantially in those counties.

1918 | I don't think those people had any picnic with this.

1919 | They are just following what the incentives tell them to do.

1920 | Mr. COOPER. I am not saying it is a picnic, but it is
1921 | the subsidy program, the Government, that is keeping them
1922 | tied to this hard work and this tough life.

1923 | Mr. GARDNER. I agree.

1924 | Mr. COOPER. So without the Government intervention, he
1925 | might have a better job somewhere?

1926 | Mr. GARDNER. Exactly.

1927 | Mr. COOPER. Or be a farmer in an area with a water table
1928 | and water and things like that that are presumably necessary
1929 | for growing crops.

1930 | In testimony yesterday in the House Ag Committee,
1931 | representatives of the crop insurance industry said that the
1932 | Administration's reform proposals, as weak as they are, the
1933 | industry witness described them as ``draconian,`` and they
1934 | would drive insurers from the market, resulting in serious
1935 | and adverse consequences.

1936 | Do you agree that the Administration's reform proposals,
1937 | as mild as they are, would have such an effect?

1938 | Mr. ELLIS. No, I would say that they are more dithering
1939 | around the edges, rather than actually draconian. They talk
1940 | about driving them from the market. I would question, what
1941 | market? Really, all the rates are established. There is
1942 | virtually no competition among the companies.

1943 | So essentially, it isn't really a market at all to be

1944 | driven from. So then it is really more about we have to
1945 | fundamentally reexamine, which is what this Committee is
1946 | doing, and what these questions have certainly been touching
1947 | on, and what the witnesses have testified to, that we have to
1948 | fundamentally reexamine the way this program is being
1949 | delivered and envisioned, and how we are going to do our
1950 | agricultural supports, and in what form, and how little or
1951 | how much.

1952 | The Administration's proposal doesn't go nearly far
1953 | enough to do any of that sort of thing. I imagine they will
1954 | cut into the profit margin of some of these companies, but
1955 | really it is a pretty fat profit margin.

1956 | Mr. COOPER. I see my time has expired. In prior
1957 | testimony from the GAO, I think profit margins were about
1958 | triple a normal casualty business. That seems to be pretty
1959 | good.

1960 | I thank the Chairman for the time.

1961 | Chairman WAXMAN. Thank you, Mr. Cooper.

1962 | Could you elaborate, Dr. Gardner or any of you, on this
1963 | cross purpose of subsidizing insurance and therefore
1964 | encouraging them to do crops that are interfering with the
1965 | Conservation Reserve Program, and causing environmental
1966 | problems. Dr. Gardner, do you want to elaborate more on
1967 | that?

1968 | Mr. GARDNER. I can't elaborate too much more. This

1969 hasn't been intensively studied, but just to take an example.
1970 There have been some academics trying to look at what the
1971 effect to the Conservation Reserve Program has been on actual
1972 acreage conserved and acreage planted. They always find some
1973 slippage in this, that even though you enroll 36 million
1974 acres in the Conservation Reserve Program, but you don't see
1975 the corresponding decline in crop acreage. This means
1976 somebody is increasing crop acreage somewhere else as land
1977 enters the Conservation Reserve Program.

1978 Exactly all the reasons for that are not clear, but I
1979 think it is quite clear, and the ERS study that I mentioned
1980 is the only one I know that really tried to quantify that.
1981 They found an estimate of 960,000 acres, almost one million
1982 acres, in cotton and grain that would not otherwise be in
1983 cotton grain--this was in the early 2000s--because of the
1984 existence of the crop insurance program. You can't say which
1985 acres those are, but there are clearly more than half of them
1986 in the Great Plains, and that is where your more risky
1987 conservation reserve type program land is. So there has to
1988 be some connection. To quantify it exactly, I can't go that
1989 far.

1990 Chairman WAXMAN. Well, let me invite you, those who
1991 think that there is maybe an alternative other than
1992 abolishing the program, which I think politically would cause
1993 a firestorm, to submit any other ideas. Submit to us some

1994 | other ideas that could, one, integrate the insurance programs
1995 | and might be something we can present in this farm bill to
1996 | the Agriculture Committees or to our colleagues on the House
1997 | floor. So please feel comfortable to submit it to us. We
1998 | would like to look at it.

1999 | Mr. Davis, anything further?

2000 | Mr. DAVIS OF VIRGINIA. I appreciate all the witnesses.

2001 | Chairman WAXMAN. Mr. Cooper, you have been very, very
2002 | helpful and I thank you so much for being here.

2003 | We stand adjourned.

2004 | [Whereupon, at 12:20 p.m. the committee was adjourned.]

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