PROMISES VS. PERFORMANCE

A REPORT CARD EVALUATING FEDERAL CROP INSURANCE

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INTRODUCTION

During the debate over the 2014 Farm Bill, members of Congress touted the saving to taxpayers that would result from doing away with direct payment to farmers, replacing it with an insurance like farm program, and having federally subsidized crop insurance take over the role of providing a safety net for America's farmers.

Ultimately, we were told, the new Farm Bill would strengthen crop insurance, provide more risk management tools for farmers, strengthen the farm safety net, make crop insurance more affordable for beginning farmers, and expand the safety net beyond a handful of row crop commodities, all with greater integrity to ensure tax dollars are used more efficiently.

Since February 7, 2014, when President Obama signed the Farm Bill into law, the Center for Rural Affairs has kept a watchful eye on these so-called reforms. Some of that happened. They made some improvements for beginners, and they expanded support to revenue insurance for more diversified farms, but even these changes need improvements. And the so-called "reforms" Congress lauded never included all the reforms we think are necessary to level the playing field, which is what led us to formally launch our Crop Insurance Reform Initiative on June 3, 2015 (cfra.org/crop-insurance-reform).

This policy brief examines the performance of federal crop insurance programs against benchmarks promised by Congressional proponents of making federal crop insurance the nation's flagship farm safety net program. The intent is to provide an evaluation, or report card, and an evaluative grade for each performance category.

Along with the letter grades (A through F) and brief comments in this report card, we provide herein stronger explanations for each performance category, including specifics on how improvements can be made in areas of low performance.

Crop Insurance Report Card

Farmers know what an important tool government subsidized crop insurance can be for their operation, but how well is it working?

Subject Area	Grade	Comment
Is Reliable	B	Provides a very reliable income for mega-farms and insurance companies
Is Transparent	D	No info on how much is received each year
Supports Beginning Farmers	D	A little but not at the rate it helps mega-farmers
Encourages Crop Diversity	D	The new Whole Farm Revenue program should help improvements on this front
Saves Taxpayer Money	F	Supports mega-farms growing larger on the taxpayer's dime
Conserves Soil & Water	F	Minimal to no conservation requirements
Overall Grade	**F**	

Additional Comments

We're disappointed to see crop insurance is still failing beginning, small, and mid-sized farmers. It consistently encourages mega-farms stomp out their smaller neighbors.

Want to Learn More?

Find more information about crop insurance reform by visiting cfra.org/crop-insurance-reform.

CENTER *for* RURAL AFFAIRS

#StopMegaFarms Crop Insurance Reform Now!

The Center for Rural Affairs believes the federal government has a role to play in providing an effective, targeted farm safety net. We also believe that Congress and the Administration need to change the ways that the federal crop insurance systems treats farmers, taxpayers and the environment because failing to do so could endanger the existence of an effective farm safety net in the future.

IS RELIABLE… GRADE = B

The current system is reliable for the insurance companies because the government pays them for administrative costs and financial loss. It is also reliable for most farmers because under the revenue coverage policy they are guaranteed a revenue stream if they show a loss, which can either be through lower yields or prices. Revenue policies account for three quarters of crop insurance policies sold and 84% of all premiums.[1]

However, mega-farms are the ones who truly benefit from this system because they are subsidized on every acre they add to their operation, which provides a competitive advantage over smaller farms in bidding for land. Mega-farms can rely on crop insurance to keep their farms big and help them get even bigger.

The truest reliability would come from providing an effective cap on subsidies to the largest and wealthiest farms. The program needs to function as a strong safety net for small and mid-sized farms, rather than serving as complete risk transfer for mega-farms.

IS TRANSPARENT… GRADE = D

While transparency to the farmers has improved (they can now see on their statements how much their premium is subsidized by the government), it falls far short when it comes to the general public.

Program costs grew dramatically over the last decade, however, with no accountability to the public regarding what return taxpayers have received for their public investment. How much are mega-farms receiving in premium subsidies? How much are insurance companies profiting? Where exactly are tax dollars going and how does the process work? Those questions are still largely unanswered, and we think the American people deserve the answers.

SUPPORTS BEGINNING FARMERS… GRADE = D

The 2014 Farm Bill took one small step toward helping beginners by providing a 10% reduced crop insurance premium. However, this only applies to their first five years of farming. If we really want to help the next generation of farmers get started in agriculture successfully, federal agricultural policy should invest in them rather than provide unlimited subsidies to mega-farms that will use those subsidies to help bid land away from them.

In addition, while reduced crop insurance premium subsidies are helpful, they are less so if they fail to provide beginning farmer the means to better manage risk through crop diversification. Needless to say, there is much more work to be done before federal crop insurance programs can be called beginning farmer friendly.

ENCOURAGES CROP DIVERSITY… GRADE = D

The government provides generous premium subsidies for crop insurance on just a few favored crops. Corn, cotton, soybeans, and wheat account for about 70 percent of the total acres enrolled in crop insurance and 80% of the premium subsidies.[1] This is not surprising, since other crops such as small grains, vegetables, and fruits are often difficult to insure--many times only insurable in certain counties around the country--and receive much less coverage. There is very little incentive for farmers to diversify and expand into new markets when U.S. farm policy so obviously favors large commodity crops.

Recently, improvements have been made; the new Whole Farm Revenue program introduced with the 2014 Farm Bill covers all the crops and livestock grown or raised on a single farm. However, there are still some problems to work

1 Federal Crop Insurance: Background, Demmis A. Shields, January 2015

through, such as access for beginning farmers in their first years of farming, the record keeping requirements that increase with the diversity of the farm, and the 35% cap on livestock revenue.

SAVES TAXPAYER MONEY… GRADE = F

To cut the budget, Congress took money out of conservation programs such as the Conservation Stewardship Program, while at the same time they were spending a tax funded $58.7 billion (from 2003-2012)[2] on premium subsidies and administrative and loss reimbursements for insurance companies. These subsidies came with no conservation requirements. In addition, the largest and wealthiest farms are subsidized on every acre regardless of how large they are, or how much money they make.

Since 2000, the program has cost anywhere from a low of $2.1 billion to a high of $14.1 billion. This is hardly a predictable program when it comes to costs. In the last eight years, the breakdown of taxpayer money spent on the crop insurance program is as follows:

- 2008 - 5.7 billion
- 2009 - 7 billion
- 2010 - 3.7 billion
- 2011 - 11.3 billion
- 2012 - 14.1 billion
- 2013 - 6 billion
- 2014 - 8.7 billion

CONSERVES SOIL & WATER… GRADE = F

Crop insurance guarantees income year after year with minimal soil and water conservation requirements[3]. In addition, there are no limits on premium subsidies so the more insured acreage farmers have, the more guaranteed income they can receive, regardless of their conservation efforts. This encourages farmers to plant marginal land, or land under poor conditions that is unsuitable for farming.

Farmers are also discouraged from planting crops other than large commodity crops, so there is not broad-scale adoption of diverse cropping systems or cover crops as ways to preserve the soil and water. As soil quality decreases, erosion increases, and water quality suffers. Crop insurance subsidies are funded with taxpayer dollars, meaning that the public's desire to preserve and protect soil and water quality should be respected and the public good of conservation should be reflected in the performance of federal crop insurance programs. In order to achieve these ends, significant conservation-oriented reforms of crop insurance will need to be implemented.

CONCLUSION… OVERALL GRADE = F

We have heard from farmers across the Midwest and Great Plains about the negative impacts of federally subsidized crop insurance for over a decade. A farm safety net is important to help family farmers mitigate risks, but there are real concerns with the current crop insurance program.

The time has come for crop insurance reforms that emphasize conserving soil and water, put real limits on subsidies to the nation's largest farms, and ensures these subsidies are transparent to taxpayers.

ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

2 CROP INSURANCE: Considerations in Reducing Federal Premium Subsidies GAO-14-700: Published: Aug 8, 2014. Publicly Released: Sep 8, 2014.

3 The 2014 Farm Bill attached conservation compliance to federally subsidized crop insurance. That is a step in the right direction, but a very small step. We aim to see greater use of conservation-based farming practices that recognize the importance of soil and water quality and conservation.