Crop Insurance —
How a Safety Net Became a Farm Policy Disaster
A Land Stewardship Project Special Report

Principles of Reform

The Land Stewardship Project (LSP) believes that our health and the health of our communities are directly connected to the health of our land and the food it produces. We believe that public policy and public resources should support the long-term stewardship of our nation's farmlands, help family farms and rural communities thrive, and move us all, rural and urban, toward a sustainable food and agriculture system. Making these widely-shared values real in our country will require significant reform to our current agricultural system and the public (and corporate) policies that support and drive it.

Towards these ends, LSP members for three decades have engaged in developing, advancing and defending good public policy, with good results. Nationally, LSP has worked with organizational allies and Congressional and White House administrative leadership to achieve the passage and effective implementation of two very successful USDA programs: the Conservation Stewardship Program (CSP) and the Beginning Farmer and Rancher Development Program (BFRDP). Here in Minnesota, because of LSP's organizing and the concerted action of thousands of citizens, our rights related to local control are strong and effectively exercised.

In turning our attention to the current system of federally subsidized crop insurance, it is clear that major reform is needed. As LSP's three recent white papers—"Crop Insurance—The Corporate Connection," "Crop Insurance Ensures the Big Get Bigger" and "How Crop Insurance Hurts the Next Generation of Farmers"—clearly document, the crop insurance system is either broken, or worse, manipulated to benefit the few over the many, and to facilitate the all-out exploitation of the land at the expense of good land stewardship. Meaningful reform of federal crop insurance demands a groundswell of action and attention from all who understand the importance of land stewardship, rural community prosperity and the success of the next generation of America's farmers.

Over the next five years, as LSP works with allies to accomplish this major reform, these are the principles that will guide such work:

1. **Major reform can and should be achieved.**

   We believe that the public interest is overwhelmingly on the side of major reform, while the interests of big agribusiness and the country's largest crop operations stand against it. When we organize for change, people can still make a difference in our country. There is nothing inevitable or unchangeable about the current crop insurance system.

2. **Reform should improve the broad public good, including the long-term health and fertility of America's farmlands.**

   Expenditures from the public treasury for federal crop insurance exceeded $40 billion from 2008 to 2012 alone. Prudence and integrity require that such huge sums be spent in ways that strengthen and support all American farmers, the communities that surround and support them, and the land itself—not just the interests of a narrow band of insurance corporations, agribusiness corporations and the largest crop operations.

3. **Reforms should be shaped by the people directly affected.**

   Just because the current crop insurance system has been taken over by insurance corporations and the largest producers of a few favored crops, doesn't mean only their voices count. Federal farm policy, and the public money spent on it, affects everyone. The healthfulness and security of our food supply and the long-term health of the land are in the vital self-interest of all Americans. We all have a voice when it comes to bringing about reform.

Areas Needing Reform

As we approach the 2019 Farm Bill, U.S. federal crop insurance policy should be reformed under three major areas:

Make it a True Risk Management Program

- Crop insurance must be returned to its roots as a modest, cost-effective risk management strategy for all of America's farmers to protect themselves against a bad year. Crop insurance can and should provide income protection only when it is needed, not huge payouts to farms in profitable years, as has been the routine case over the years. The job of federal crop insurance is not to eliminate risk, guarantee profit, or incentivize the growing of some crops over others regardless of the impact on soil, water and people. Its purpose is to protect farms from being wiped out by adverse circumstances, and to assist our nation's farmers in recovering from a hard hit.
- Federally subsidized crop insurance must be available to all farmers and all crops. It must stop favoring monocultural production of a handful of crops, while penalizing the operations that utilize diverse crop rotations, cover cropping, organics or grass-based production. Such diverse systems are themselves excellent risk management strategies and should be encouraged by this program. They are time-tested and proven approaches to decreasing insect pest populations, increasing water retention in soil, building soil health and fertility, and

spreading economic risk across a variety of farm enterprises. These practices give taxpayers more bang for their risk management buck. Overall, the premium subsidy amount should be reduced from the current average of 62 percent, which is exorbitant, and subsidies at the higher percentages should be tied to higher levels of crop diversification in resource-conserving rotations.

- Whole farm crop insurance should be fully developed and fully resourced. A good step forward was taken in the fall of 2014 by the USDA's Risk Management Agency when it established premium subsidy levels for the new Whole Farm Revenue Protection (WFRP) crop insurance policy. Unlike traditional crop insurance, whole farm insurance allows producers to insure the value of all of their crops, rather than only a handful of "insurable" crops. This makes the policy a potentially useful option for diversified farms with resource-conserving crop rotations, integrated grain and livestock systems, specialty crops such as fruits and vegetables, and organic enterprises. As it is further developed, however, Whole Farm Revenue Protection must be made accessible to beginning farmers (under the new rules, you have to have farmed for seven years to apply for it), and require higher levels of crop diversification to receive higher premium subsidies.
- The program should address the suitability of the field for the crop insured, using conservation outcomes as the key measure. Fully insuring high corn yields on marginal, low-yielding crop ground does not make fiscal or conservation sense. The practice of "moving yields" should be ended. This harmful practice allows established farm operators to use high yields on excellent soil as the basis for revenue assurance on other, more fragile land that has poorer soil and is much less suited for crop production.
- Crop insurance should let organic farmers insure their crops at organic prices. Organic farmers have long faced a disadvantage when utilizing the crop insurance program—if an organic producer suffers a loss, he or she receives a payout fixed to the non-organic price for their crop, which is generally considerably lower than the organic price. The 2014 Farm Bill directed USDA to complete a series of organic price elections (setting the insurable organic price for a crop) by the 2015 crop insurance year, which started in July 2014. As of October 2014, USDA has issued organic price elections for only 16 organic crops, half of which are available only on the West Coast. Completing this Farm Bill mandate is important for organic producers, who, with some exceptions, are stuck insuring their high-value crops at prices far below their market value.

Crop Insurance Should Support, Not Impede, a New Generation of Farmers

- America's beginning farmers are innovative, hard-working leaders in the development of food and farming systems that care for the land while putting healthy food on our tables. The U.S. Secretary of Agriculture has called on federal farm policy to support starting 100,000 new farmers within the next few years. Yet the federal government's major agricultural policy initiative, crop insurance, is actually accomplishing just the opposite by inflating land prices and relying on payment systems that penalize diverse, sustainable farming systems.
- Crop insurance subsidies paid for by the public should be set at reasonable levels to provide a safety net for small- and mid-sized farm operations. But public subsidies should not be set so high that the payments underwrite the expansion of the largest cropping operations. Premium subsidies on crop and revenue insurance coverage should be phased down for cropping operations with an adjusted gross income above certain levels, starting at a 50 percent reduction on adjusted gross income exceeding $1 million and reaching 100 percent on adjusted gross income exceeding $2.5 million. By doing so, the amount of public dollars provided to the largest crop producers would be decreased, and the use of crop insurance as a guaranteed, risk-free source of public funding to bid up land prices and rental rates beyond the reach of beginning farmers would be diminished.

- Whole Farm Revenue Protection should be made available and affordable to beginning farmers. Having crop insurance is an important way for farmers to secure credit—beginning farmers lacking crop insurance face an even bigger uphill battle to getting started successfully when they are denied access to affordable whole farm insurance.

Make Crop Insurance Fiscally Sound & Stop Using it as a Mechanism for Corporate Welfare

- An accountable system must be created that stops sending the vast majority of the financial benefits of federally subsidized crop insurance to the biggest 2 percent of America's farms and some of the largest insurance corporations in the country. Taxpayers currently subsidize on average about 62 percent of the cost of crop insurance premiums, and the federal government paid out over $7 billion in premium subsidies in both fiscal year 2011 and fiscal year 2012. Currently, producers enrolled in the crop insurance program receive premium subsidies without limit, and regardless of their income or ability to pay. Meanwhile, the profits made by insurance corporations via "reimbursements" from the public treasury, government protection from risky policies, and policy sales in a market highly-subsidized by public dollars, are in the billions of dollars.
- An effective reform, proposed this year by the U.S. Government Accountability Office (GAO), would reduce the level of federal premium subsidies for revenue crop insurance policies (these levels are set by Congressional action). The GAO found that even a modest decrease in the subsidy would result in hundreds of millions of dollars in budgetary savings with limited costs to those individual farmers who use revenue crop insurance. In 2000, the government paid as a public subsidy 37 percent of the cost of crop insurance policies purchased by farmers; by 2012, that level had climbed to an average of 62 percent per policy.[1] Such excessive subsidy levels should be cut back and subsidies at the higher levels must be tied to higher levels of crop diversification in resource-conserving rotations.
- With billions of dollars at stake, federally subsidized crop insurance must be transparent to be accountable. The amount of federal reimbursements received by each crop insurance corporation should be publicly available. The same goes for producer recipients of premium subsidies of more than $50,000 annually.
- We must limit the excessive, duplicative and guaranteed administrative cost reimbursements that are charged by the approved corporate providers of crop insurance. Such excessive reimbursements impose inflated costs on the public in order to guarantee corporate profits.

For More Information

There is much public discussion and policy development work to be done in order to enact key reforms to this important public policy. For more information or with suggestions about the Land Stewardship Project's policy work related to crop insurance reform, contact LSP Policy and Organizing Director Mark Schultz at marks@landstewardshipproject.org or 612-722-6377.

1 U.S. Government Accounting Office. "Crop Insurance: Considerations in Reducing Federal Premium Subsidies," GAO-14-700: Published: Aug 8, 2014. Publicly Released: Sep 8, 2014. www.gao.gov/products/GAO-14-700

White papers in the "Crop Insurance: How a Safety Net Became a Farm Policy Disaster" series

- Crop Insurance—The Corporate Connection
- Crop Insurance Ensures the Big Get Bigger
- How Crop Insurance Hurts the Next Generation of Farmers

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To read all of these white papers and for more information on the Land Stewardship Project's "Crop Insurance: How a Safety Net Became a Farm Policy Disaster" initiative, see: www.landstewardshipproject.org/organizingforchange/cropinsurance.

More information is also available by contacting **Mark Schultz, Land Stewardship Project Policy Program Director, at 612-722-6377 or marks@landstewardshipproject.org.**