Policy & Organizing

A recipe for disaster

How did crop insurance transform from a basic safety net for farmers to a program that threatens our land and communities?

By Brian DeVore

As far as southwest Minnesota farmer Darwyn Bach is concerned, there's no doubt that in the crop insurance sweepstakes, he's a winner. But he concedes that his good fortune presents a quandary, since the way the program is implemented these days creates significant losers: the soil, beginning farmers and Main Street businesses that suffer when the number of families in a rural community decline.

"Because of crop insurance, there really is less risk for me in grain farming right now," says Bach, who is a member of the Land Stewardship Project's Federal Farm Policy Committee. "But long term for our community, it's definitely not good."

Bach's concern is shared by many across the Corn Belt. A program that started out simply as a way for farmers to ride out the droughts, floods, pest infestations and other curve balls nature tosses their way has quietly transformed into one of the biggest drivers of how crop farming is carried out in this country. And as discussion over the next Farm Bill heats up—it's expected to be passed either later this year or in 2013—it's become clear that commodity groups, agribusiness firms and insurance companies want it to become an even bigger player in American agriculture.

Farm policy experts say that if crop insurance does not undergo some major reforms in the next 12 months, it will have major negative impacts on what our land and communities look like for years to come.

"Here we have a program that got way off track and in the process is threatening to do much more harm than good to the farm economy and the land," says Adam Warthesen, an LSP organizer who specializes in federal farm policy.

A major shift

The crop insurance program is administered by the USDA's Risk Management Agency as a kind of a quasi-private program, with insurance policies sold and serviced through 15 to 16 approved insurance companies.

For decades after it was launched in 1938 by Congress, the crop insurance program focused almost exclusively on keeping farmers from being financially devastated by weather-related disasters. The philosophy behind crop insurance was simple: it was aimed at helping maintain a base of farmers to grow food and fiber for our country. If crop yields were severely cut or wiped out by bad weather, farmers who had bought an insurance policy would receive a disaster payment, called an indemnity.

In the 1990s, the program's focus underwent a major shift. Following the devastating floods of 1993, Congress sought to increase participation in the crop insurance program by significantly ratcheting up how much of the farmer's premium cost the government would cover (premium subsidies were increased again in 2000). Between 1989 and 1994, federal subsidies covered on average about a quarter of a farmer's insurance premium cost, according to the University of Missouri's Food and Agricultural Policy Research Institute. Today, the federal government takes on around 60 percent of the farmer's cost of a premium, depending on the level of coverage.

Even more significantly, it was in the 1990s that "revenue insurance" options were added to the program. For the first time, crop producers were able to insure themselves not just against yield disasters but low prices.

Under the revenue insurance program, each year participating producers are assigned a target level of income based on projected prices and historic yields. Payments after harvest can be triggered by various combinations of low prices and low yields.

Approximately 128 crops can be insured through the program, but in 2011 just three accounted for 70 percent of the farmer payouts that were made: corn, cotton and wheat.

The increased premium subsidy and the ability to insure revenue has produced what the government wanted: more farmers buying crop insurance. This year over 80 percent of all eligible acres will be covered.

Over the past dozen years, revenue insurance has shifted from an add-on to increase participation among farmers to *the dominant player* in crop insurance—the tail wagging the dog. In 2011 only 17 percent of farmed acres nationwide were covered by yield insurance, while 83 carried revenue insurance, according to the Risk Management Agency.

One farm's experience

Farming is inherently risky, given the vagaries of weather and markets, and that's part of the reason federal programs like crop insurance have been created. But there's a difference between cushioning the blow and fueling endeavors that have negative consequences, says LSP's Warthesen.

Bach agrees. He has been farming since 1986 and now raises corn and soybeans on 520 owned and rented acres in Yellow Medicine County. Since he has a quarter-century of cropping history, Bach can qualify for higher payments than someone who is just getting started farming. If a farmer doesn't have at least 10 years of cropping history, then their insurance payment will be based on the average yield for the county, which can be significantly lower. For example, Bach's actual historical yield for corn is 176 bushels per acre; the county's historical yield is 156 bushels per acre.

The farmer has crunched the numbers and is stunned at how much his guaranteed revenue has climbed under crop insurance in the past 15 years. In 1997 he was guaranteed $166 per acre; in 2011 it was just over $900.

"Of course, input costs went up over that time, but I still only spent $200 more an acre in non-land costs compared to 1997, while my guarantee went up $734," says Bach. "The pendulum has swung way too far."

And to top it off, this year the government is experimenting with increasing the target yield for farmers like Bach based on what it thinks production "trends" show they can raise in the future. Bach estimates that this will increase his target yield to 194 bushels per acre (a level he's reached once or twice in his farming career, by the way), 38 bushels per acre more than what a farmer with less than 10 years of yield history would qualify for. This could raise Bach's guaranteed revenue above $1,000 per acre.

A land grab tool

One of the biggest losers as a result of crop insurance's increased emphasis on guaranteeing revenue is the beginning farmer, says Warthesen. If you don't have a long crop history, the current set-up for crop insurance puts you at an obvious disadvantage, and that affects everything from how much you can bid on land rents and purchases, to how much money you can borrow from the bank. To skew things even further, in some cases farmers with high target yields can transfer them to new farms they may be purchasing or renting, even if those farms have an unproven yield history.

With the recent run of skyrocketing com-

Crop Insurance, *see page 15…*

...Crop Insurance, *from page 14*

modity prices, the revenue targets are being set increasingly higher. If you happen to be farming marginal land that doesn't produce good yields, but your overall yield history is quite high, the crop insurance payout can be significant. High commodity prices are being blamed for the recent record bids on land rentals and purchases. But Bach says the guaranteed profits on even marginal land that insurance now provides has also contributed to real estate inflation.

"You could be guaranteed $1 million to $2 million in income if you have 5,000 to 10,000 acres," he says. "It's really amped up the land grab mentality. When there's no risk in farming more land, people go out and bid up rental rates and land rates. It's a snowball effect."

An erosive force

In an attempt to increase farmer participation even more, the government made another unfortunate change to crop insurance in the mid-1990s. It no longer requires crop producers to have in place basic soil conservation measures in order to qualify for insurance payments. Such requirements, called "conservation compliance," are a part of all the major farm programs, such as direct commodity payments. Surveys conducted over the past three decades show farmers consistently support the idea of controlling erosion in return for taxpayer support.

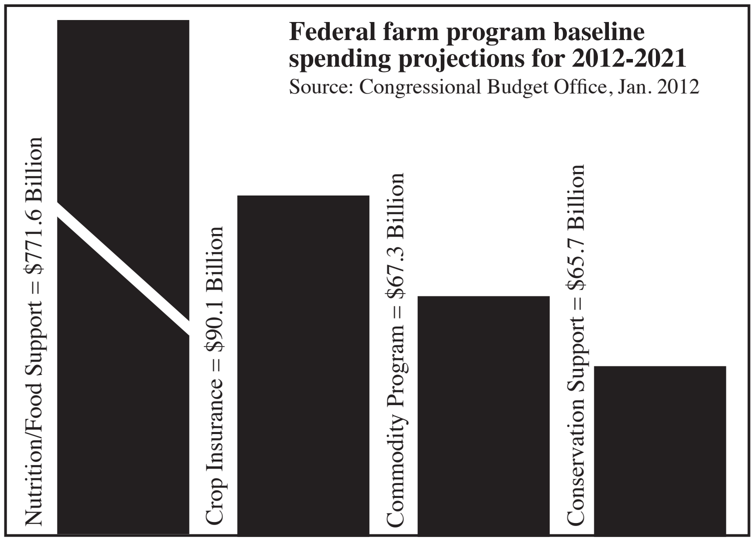
Unlinking conservation compliance from crop insurance is particularly troubling given that, as numerous national studies show, increased insurance subsidies encourage the farming of marginal land—acres too erosive, wet or otherwise fragile to raise a good crop on. By guaranteeing income no matter what those acres yield, there is no longer an economic brake on plowing up those acres.

The USDA's Economic Research Service studied land use changes after the government added revenue assurance and increased premium subsidies for crop insurance in the 1990s. It found insurance program changes increased cropland in production by an estimated 1 percent in 1997 alone, and much of that came on marginal land. While 25 percent of all cultivated cropland was classified as highly erodible in 1997, 33 percent of acreage put into production after crop insurance was changed was highly erodible land, concluded the USDA.

Bach is seeing crop insurance's environmental impact in his own community. The western side of Yellow Medicine County has hillier, less productive land, and has historically enjoyed high rates of Conservation Reserve Program (CRP) enrollment. Depending on soil type, the government pays from $131 to $198 per acre to enroll land in CRP in his area. For acres that have never produced a decent crop anyway, that rate may be attractive.

But revenue insurance changes everything: those highly erosive CRP acres can now produce many times the income, even if they can't make a decent corn or soybean crop. This is particularly true when those acres fall into the hands of a landowner with a long yield history on productive farm ground. Bach says that's what's happening in his area—CRP contracts are expiring and that land is going into corn and soybeans.

"With crop insurance it's a direct impact on marginal lands. As soon as a CRP contract comes up, it's plowed up, and that's directly related to the revenue guaranteed by crop insurance," he says.



Increased ag policy clout

All of this emphasis on revenue assurance has made crop insurance a very expensive endeavor for the taxpayer—the cost of running the program has more than doubled during the past decade. Farmers collected at least $10 billion in crop insurance indemnities in 2011. This surpasses the previous record: $8 billion in payouts in 2008. That record, in turn, had doubled the previous high.

Particularly nasty weather in 2011 is partially to blame for the huge indemnities, but floods and drought have always been a part of farming. The bottom line is covering farmers' business income is pricier than simply covering yield losses, especially in times of record high crop prices.

"This has doubled the cost to taxpayers and opened the door for large payments to producers who suffer only paper losses," says Bruce Babcock, an Iowa State University economist who studies crop insurance.

Congressional budget cutters have focused a lot of attention on reducing the amount of direct payments farmers receive through the USDA's commodity subsidy program. In reality, crop insurance costs the taxpayer much more money. It is now second only to food and nutrition programs in terms of how much of the federal agriculture budget it gobbles up (*see chart*). Over the next decade, federal spending on crop insurance is projected to outpace spending on traditional commodity programs by about one-third, according to the Congressional Research Service. In a politically savvy move, the National Corn Growers Association and other commodity groups have told policymakers they would be willing to give up direct payments as a budget-cutting move in the next Farm Bill. That's because they know they have crop insurance as their ace in the hole, says LSP's Warthesen.

"The major farm groups want to make crop insurance the big player in farm policy," he says. "That way, they can make it look like they are giving up something in the form of direct payments when in reality they are gaining much more, at the taxpayers' expense."

Warthesen says it's important to have a crop insurance program that is true to its roots: as a tool for managing risk, not as one that eliminates the incentive to farm in a way that's good for the land and the community. A strong crop insurance program is particularly important at a time when wild swings in the weather are making farming fraught with even more uncertainty.

"It's a needed tool, but it requires major changes to make it a program that's fair for all farmers," he says.

LSP and other sustainable agriculture groups want a crop insurance program that requires conservation compliance, better targets affordable policies to the farmers who need them, and stops discriminating against beginning farmers and organic producers. The latter group of farmers must pay a 5 percent surcharge to participate in crop insurance, and are given inadequate payments in the event of a crop failure.

Bach agrees that the program is due for a major overhaul, or it will do even more damage on the land and in his community.

"This was set up to be a safety net for real farmers out there producing crops, not a tool for concentrating wealth and emptying our towns," he says. ❒