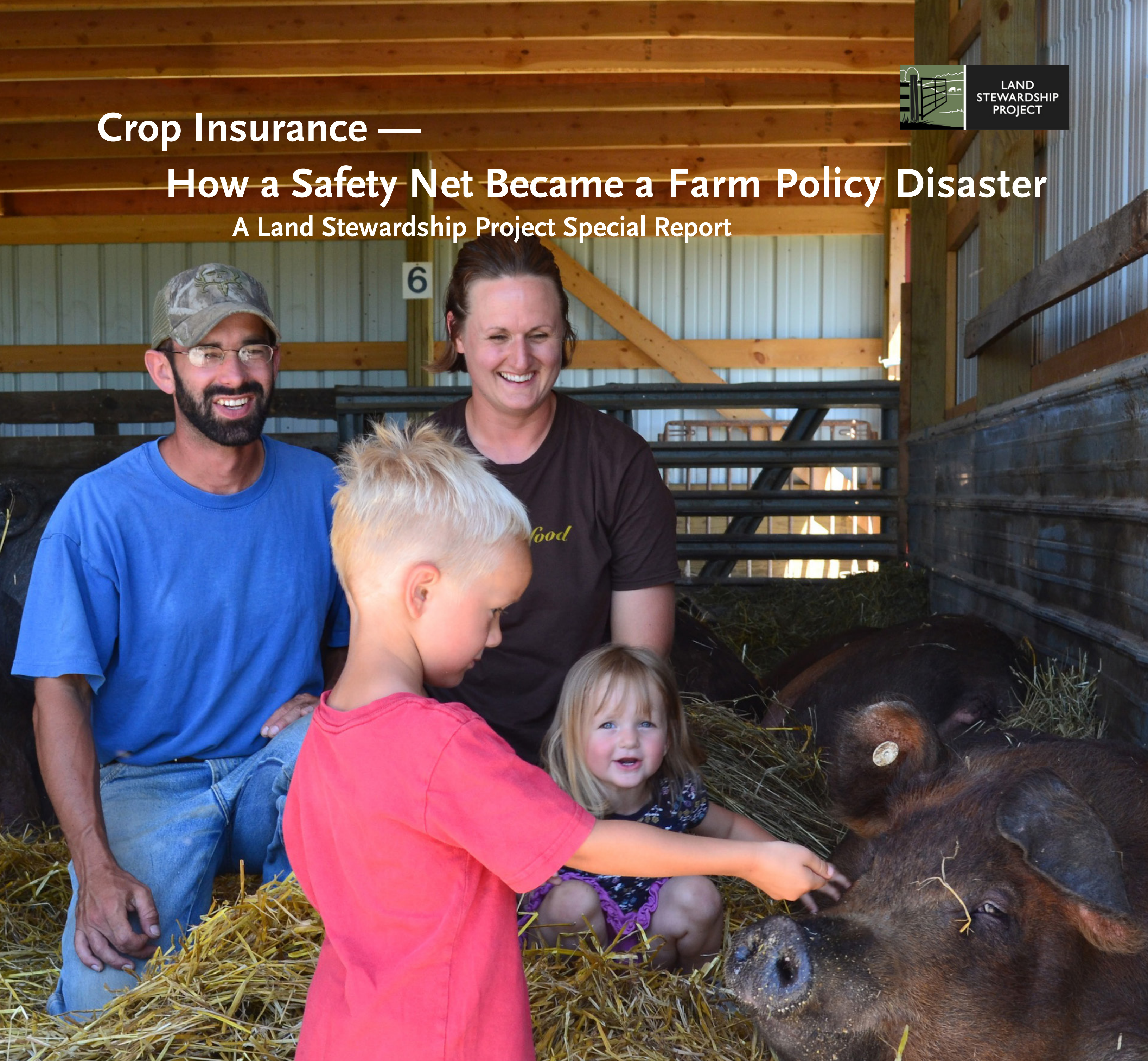
LAND STEWARDSHIP PROJECT

Crop Insurance — How a Safety Net Became a Farm Policy Disaster

A Land Stewardship Project Special Report



White Paper 3

How Crop Insurance Hurts the Next Generation of Farmers

Main Points of this Paper

- Federally subsidized crop insurance inflates land prices beyond the reach of beginning farmers by providing some of the largest crop operations in the country a consistent, publicly-funded source of cash for bidding up rental and purchase prices.
- Requiring several years of "yield history" to qualify for optimal crop insurance benefits puts beginning farmers at a severe disadvantage, not only in terms of insurance coverage, but how lenders view them when they are seeking operating loans.
- Crop insurance's focus on rewarding the all-out production of a handful of commodity crops benefits large-scale operations that focus on monocultural agriculture and penalizes beginning farmers and others who utilize diverse systems.

Introduction

The future of our rural communities and the growth of some of the most promising sectors of our food system rely on a major influx of beginning farmers (defined by the USDA as farmers who have been producing on agricultural land for less than 10 years). U.S. Secretary of Agriculture Tom Vilsack has called for federal farm policy that has a goal of getting as many as 100,000 new farmers started during the next few years.[1] Unfortunately, a key agricultural policy tool, crop insurance, serves as a major impediment to this group of farmers.

It does this in a couple of ways: first by inflating land prices and cash rental rates to the point where beginning farmers with limited financial resources are priced out of the market. Secondly, the current structure of crop insurance causes lenders to view beginning farmers as "high risk producers," limiting their access to capital. Numerous studies and surveys have shown that lack of access to land and capital are the two biggest barriers to getting started in farming.[2]

For almost two decades, the Land Stewardship Project's Farm Beginnings Program has been training people who are interested in farming systems that utilize cutting-edge production, marketing and business planning methods. This community-based initiative has been so successful that it was recognized as "a model that is creating strong

1 National Sustainable Agriculture Coalition blog. July 1, 2010. "Vilsack: Farm Bill Should Emphasize Beginning Farmers." http://sustainableagriculture.net/blog/vilsack-beginning-farmers

2 "Access to Land, Capital Biggest Obstacle for Beginning Farmers." USDA Blog, January 31, 2013. http://blogs.usda.gov/2013/01/31/access-to-land-capital-biggest-obstacle-for-beginning-farmers/

new farm businesses across the country" by Kathleen Merrigan, then U.S. Deputy Secretary of Agriculture, in her 2012 remarks to the Beginning Farmer and Rancher Development Program directors.[3] However, LSP has become increasingly troubled by the fact that even the mostly highly-trained, motivated farmers are finding it next to impossible to launch their agricultural businesses due to lack of access to land and capital.

As part of our investigation of federally subsidized crop insurance, the Land Stewardship Project conducted in-depth interviews with beginning and established farmers from across Minnesota. These farmers verified that crop insurance plays a major role in limiting access to land and capital, which is threatening the future of our rural communities as cropping operations become larger and fewer, and the average age of the American farmer creeps toward the six-decade mark.

"It feels like land prices are pushing farmland ownership for us right out of range. If it's doing that for us, it's doing it for a whole lot of other people," said east-central Minnesota beginning farmer Paula Foreman.

The High Cost of High Land Prices

While farmland prices have always fluctuated on an historical basis, the past decade has marked an unprecedented inflationary run. Research by agricultural economist Steve Taff shows that in Minnesota farmland prices increased by 15 percent in 2008, 12 percent in 2010, 14 percent in 2011, 24 percent in 2012 and 5.3 percent in 2013.[4]

Part of this inflationary trend can be attributed to years when prices for crops such as corn reached record highs. However, farmland sale prices and cash rental rates have risen even in years when crop prices were flat, a result of large cropping operations knowing they are guaranteed significant crop insurance benefits, no matter what the elevator is paying or what yields they produce. This disconnect between the agronomic and market realities of crop farming, and the payouts crop insurance guarantees, is troubling even to farmers who benefit from the program.

Small Farms-Big Prices

Paula Foreman, who farms in east-central Minnesota, has been on the hunt for a permanent, stable location for her operation for four years, and it is getting discouraging. Foreman raises heirloom varieties of edible dry beans, a high value crop that doesn't require a huge tract of land, but still, it has been a struggle.

"We're seeing most farms in the high $200,000 to mid $300,000 range—for a 20-acre parcel with a house," she said. "A real estate listing for an organic hobby farm seems like code for $400,000. That's just not affordable for us."

Foreman recognizes the tough financial decisions facing farmers and farmland owners today—the real blame lays with the agribusinesses and the way they've shaped agricultural policies to their financial benefit, she said.

"There are a lot of things feeding this trend of land prices going up," she said. "People with good frac sand land are being offered a lot of money. The Twin Cities Metropolitan Area keeps expanding—people who want to live in a quaint town in proximity to the Cities. Commodity crops getting really high prices in the past several years are a factor. People can ask for these prices and get them. It's hard to fault people for that. Most farmers are trying to make the best economic choice for their farm. It's the federal policies, and the agribusinesses driving them, that are pushing land prices up. They're making policies for one reason only—financial gain—and nothing else matters. They're insuring commodity crops over food for people."

3 Merrigan, Kathleen. LSPNow, "Deputy Merrigan Talks Beginning Farmer Program." Accessed 11/19/2014. www.youtube.com/watch?v=DBM-mYSXw9g&list=UUwKISe3WRiRvXsf2m5Kvh4Q&index=7

4 Taff, Steve. Minnesota Farm Real Estate Sales 1990- 2013. March 2014, University of Minnesota. http://ageconsearch.umn.edu/bitstream/164852/2/Minnesota_Farm_Real_Estate_Sales.pdf

An Obstacle for Innovators

Emily Hanson and Klaus Zimmermann are young farmers in southwestern Minnesota who, driven by love of the land and animal husbandry, have built up years of farming experience and employ innovative marketing tools to connect to customers. In many ways, they are the kinds of beginning farmers that our region needs.

And their goals are reasonable: "Somewhere upwards of 80 to 100 acres with a house and outbuildings, and a mix of pasture, tillable and woods is kind of our ideal, which is what used to be your typical family farm," said Hanson.

Yet even with these modest demands, farm ownership has proven to be a major obstacle.

Zimmerman said, "In terms of land prices and the amount of money we had, it was not economically feasible at all."

"We just realized that even if we could scrape together the money, like have family help out, and get a loan, and buy land, then we would have no money to start the farm," added Hanson.

And it's becoming increasingly difficult to find farms that have the outbuildings, fencing and other pieces of infrastructure needed to get even a basic agricultural enterprise off the ground.

"A lot of those farms, the house and buildings are in really bad disrepair now, or the homestead has been destroyed, and finding them at a reasonable price is really difficult," said Hanson. "Across this field there's an old homestead—a house and some outbuildings, but there aren't any trees around there anymore. They all got torn out and it's cornfields right up to the backyard. So even if that were to be up for sale, which it's not, you're moving into this place that's just not that nice of a place to live without starting all over—it's a very blank slate."

Hanson added, "People ask us relatively frequently, 'Do you guys get subsidies?' Besides our food stamps, no." It seems messed up to me—that yeah we get money from the Farm Bill, through getting food stamps, not through farm supports, even though we're farming for our full-time occupation, growing food."

"We had just an enormous check—in no way reflecting the reality of what actually happened and what we sold [our crop] for," said southwestern Minnesota farmer Ryan Batalden of a recent crop insurance payout his operation received.

On top of this, the crop insurance program does not limit how much any individual farmer can receive either in indemnity payments or premium subsidies. With the ability to insure both yield and revenue on even the most marginal farmland, large cropping operations have at their disposal a massive amount of cash, which they can use to outbid smaller farmers when purchasing and renting land.

"A lot of those guys who are running a lot of land, they know...[that] worst case scenario they're going to walk away with 12 bucks an acre in their pocket. That's if all else fails and they never even start their combines in the fall, they're going to walk away with that," said Jon Jovaag, a beginning farmer in southern Minnesota. "So they drive that price up to where they can still clear a little profit, and then if things go well they'll make a huge amount. And it doesn't matter how much money you're making that year. There's no means testing. I don't even go to the [land auctions] because I know it's going to be $7,500 [per acre], up to a lot more."

The result is that crop insurance has been a major driver of the current land grabbing fire as large operations take over smaller farms, bulldoze the buildings, fences and trees, and transform independent business entities that served important roles in the community into just so many additional crop fields. In other words, crop insurance rewards the big getting bigger at the taxpayer's expense.

"You could be guaranteed $1 million to $2 million in income if you have 5,000 to 10,000 acres," said southwestern Minnesota farmer Darwyn Bach. "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. 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."

Denying Capital to Beginning Farmers

Even if beginning farmers are able to find affordable land, crop insurance severely undercuts their ability to obtain the kind of operating capital needed to farm profitably. That's because if a farmer doesn't have at least four successive years of cropping history, then the insurance payment they qualify for will be based on a percentage of the average crop yield—called a transition or "T-yield"—for the county they farm in (that average is based on the country's 10-year historical county average). If a farmer has no production history, then 65 percent of the T-yield is applied. With one year of production history, the remaining three years receive 80 percent of the T-yield. With two years of production history, the two missing years receive 90 percent of the T-yield. And with three years of production history, a farmer receives 100 percent of the T-yield for the one remaining year needed to calculate a farm's yield history.[5]

The county crop yield average can be significantly lower than what is attainable on individual farms, and with additional percentages taken off, beginning farmers receive much less crop insurance protection in the event of weather disaster. Thus, when a beginning farmer seeks an operating loan, the lender considers them a bigger risk as a result of the lower guaranteed yield they are bringing to the table. A higher risk equals less access to credit.

"I imagine [a beginning farmer] goes into the bank to get an operating loan and the banker says, 'Well, wait a second, you can only guarantee 85 bushels an acre corn with your crop insurance, where as [your neighbor] could guarantee 140. This isn't enough to guarantee that you can pay back the loan,' " said Batalden.

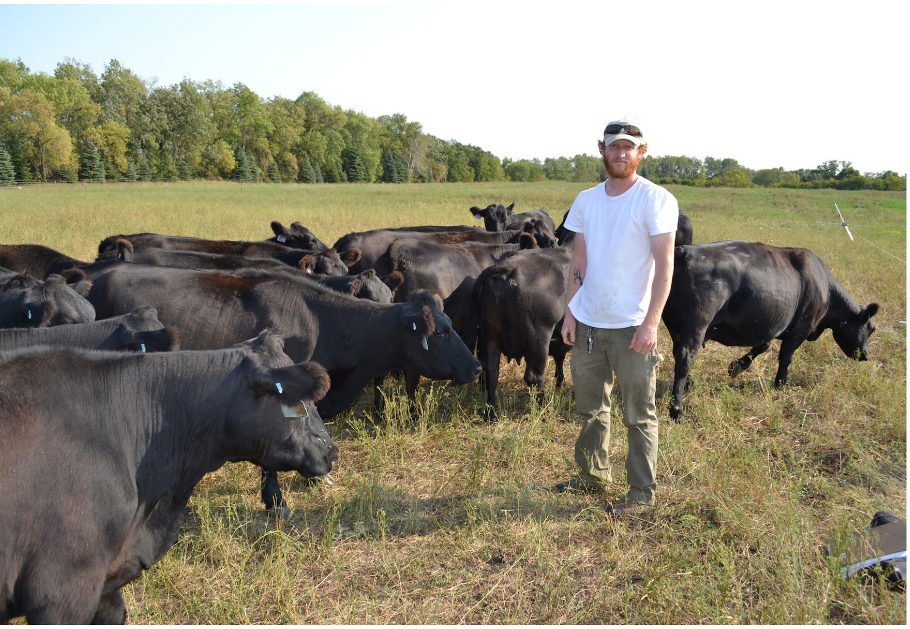
In addition, established crop producers can transfer their yield history to recently rented or purchased land, even if those new acres have an unproven yield history. This gives them an even bigger competitive advantage when it comes to bidding on farmland.

Bach, who has over a quarter-century of cropping history, concedes that he benefits from the crop insurance program. But he is troubled by the fact that it has transformed from a safety net into a mechanism for concentrating

5 Plastina, A., Willians, E. "Proven Yields and Insurance Units for Crop Insurance." Revised September 2014. Iowa State University Extension. www.extension.iastate.edu/agdm/crops/html/a1-56.html

land ownership while locking innovative beginning farmers out of the business.

"For someone without a connection, trying to come in is next to impossible," said Bach. "And part of that is related to the crop insurance. If someone is coming in without any history or connection that allows him or her to use a yield history, they're starting at a much lower level of coverage. It's much more risky for them."



Unable to obtain prime farmland, in some cases desperate beginning farmers have found ways to purchase small parcels with poor soil, only to discover that it cannot provide a viable livelihood.

"If you want to generate a livelihood from your land, you've got to have quality land," said Cree Bradley, a beginning farmer in northeastern Minnesota who works with LSP's Farm Beginnings Program. Beginning farmers "are often buying land that is ultimately too small to allow them to grow to a scale that can be successful. The cost of land is driving these land purchases, and it's also driving purchases of land where there's a struggle to build soil."

A further impediment for beginning farmers bidding on farmland is that obtaining a beginning farmer loan through the government can take several months, whereas a large cropping operation with cash on hand can step in and pay the seller immediately.[6]

Surveys conducted by the Land Stewardship Project show that many beginning farmers are interested in pursuing a variety of enterprises in a diversified situation, rather than focusing on raising one or two crops. Such diversity is economically less risky, and makes the farm more resilient in the face of severe weather. However, crop insurance has historically focused on supporting the monocultural production of a handful of favored commodity crops, and thus puts farmers who have a diversity of enterprises at a severe economic disadvantage.

The result is that even beginning farmers who have worked hard to get the proper training and experience, all the while making economic sacrifices to bankroll their dreams, often find buying a farm an unattainable fantasy. Instead of serving as a safety net for all farmers, crop insurance is creating major barriers for a critical sector of agriculture—beginning farmers. As the country' largest and most influential farm program, crop insurance must undergo significant reforms if it is to foster more, rather than fewer, farmers on the land.

6 "Farm Transitions Profiles: FSA Beginning Farmer Loans," Farm Transitions Toolkit. Land Stewardship Project-Minnesota Institute for Sustainable Agriculture. Accessed 11/12/14. www.landstewardshipproject.org/farmtransitionsprofilesfsabeginningfarmerloans

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

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.**