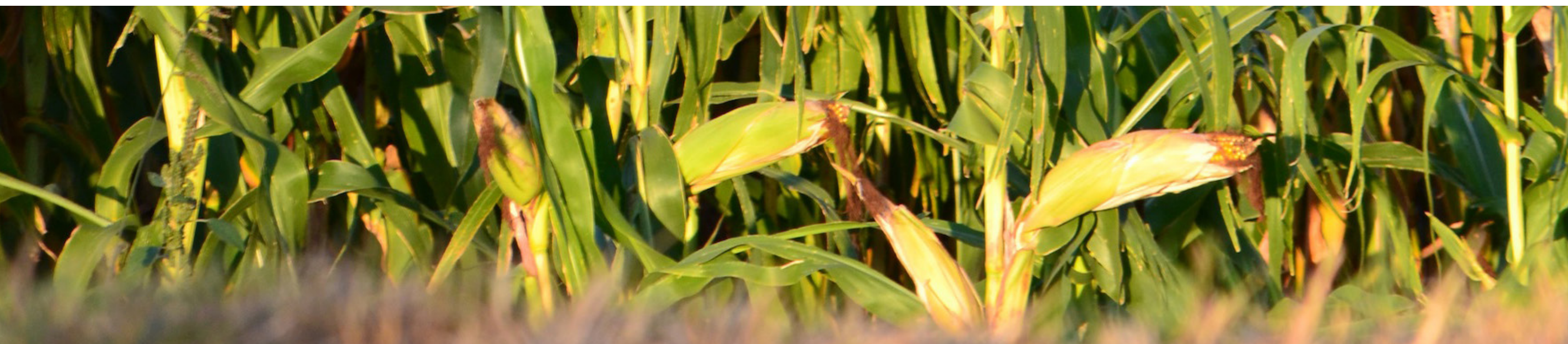
LAND STEWARDSHIP PROJECT

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

A Land Stewardship Project Special Report

WHITE PAPER 2

Crop Insurance Ensures the Big Get Bigger



Main Points of this White Paper

- Crop insurance benefits the largest agricultural operators most. They receive the vast majority of crop insurance premium subsidies and insurance payouts, and use these disproportionate benefits to outcompete family farmers for land and other resources.
- Crop insurance is the new vehicle for using public funds to concentrate agricultural wealth in this country. This consolidation increases economic and environmental risk and threatens community health at the public's expense.
- Twenty-two percent of U.S. farmers use crop insurance, and the majority of the benefit goes to a tiny fraction of producers. Despite the narrow group of private interests that benefit disproportionately from the program, it has imposed a $58 billion price tag on the American people over a 10-year period.[1]

Introduction

Strategies to manage risk and recover from disasters are needed to guarantee a stable supply of food and fiber, and to ensure that farmers don't go under after one bad year. These goals are in the public interest, and federal government support of diverse risk management strategies is good policy.

In recent years, subsidized crop insurance has expanded dramatically to become the country's biggest federal farm program.[2] The federal government has increased funding for the program and more farmers than ever are participating. But instead of functioning as common sense risk management for all farmers, the current form of crop insurance funnels public dollars to the largest crop operations, enabling them to outcompete family farmers for land and other resources. It is highly targeted to promote the maximum production of a few commodity crops, and is biased against stewardship farming practices that are themselves proven risk management strategies. Crop insurance has become a primary vehicle for using public funds to concentrate agricultural wealth in our country.

1 Calculated using 2011 data from the Environmental Working Group and U.S. Census of Agriculture. They report 486,867 crop insurance policy holders and 2,181,000 farms.

Environmental Working Group, "Concentration of premiums subsidies in the United States, 2011." Accessed 11/12/14. http://farm.ewg.org/cropinsurance.php?fips=00000&summpage=CONC2011&statename=

USDA NASS, "Agricultural Statistics 2012," Table 9-2.- Farms: Number, land in farms, and average size of farm, United States, 2002-2011. Accessed 11/12/14. www.nass.usda.gov/Publications/Ag_Statistics/2012/2012_Final.pdf

2 Plumer, Brad. "The $956 billion farm bill, in one graph." *Washington Post*, 1/28/14, www.washingtonpost.com/blogs/wonkblog/wp/2014/01/28/the-950-billion-farm-bill-in-one-chart

Public Dollars for the Largest Operators

The bulk of the billions of public dollars used to support crop insurance benefits a small handful of the largest crop operations in the country. For example:

- In 2011, 26 operations received over $1 million each in premium subsidies in the U.S.[3]—each insuring from 20,000 acres to over 48,000 acres.[4]
- In 2011, fewer than 5,000 U.S. crop operations—less than one-quarter of 1 percent of all U.S. farms—received in total more than $1 billion from the U.S. taxpayer via crop insurance. These operations each averaged $226,611 in subsidies for federal crop insurance in a year of widespread agricultural prosperity.
- The top 10 percent of crop insurance subsidy recipients represent just 2.3 percent of America's farmers, but in 2011 they took in more than half of all premium subsidies paid out of the public treasury—a whopping $4 billion. These 50,000 farms, maximizing the production of a few favored commodity crops highly subsidized by U.S. farm policy, each received an average of $82,223 in crop insurance premium subsidies, while the remaining farmers who have crop insurance received an average of $7,639 each.[5]
- In 2011, 78 percent of U.S. farms didn't have crop insurance, and received nothing.[6]

While three-quarters of U.S. farms do not have crop insurance, it is widely used by producers of the commodity crops favored by U.S. farm policy — corn, soybeans, cotton, wheat and rice, for example. Those crops receive expansive coverage, while small grains, hay, and produce are generally insurable only in certain counties where they are grown on an industrial scale. For example, in 2013 strawberries were only insurable in 6 California counties.[7] Farmers may also choose not to use crop insurance

Not a Safety Net

Darwyn Bach has been farming in Yellow Medicine County in southwestern Minnesota for 29 years. He runs around 600 acres, roughly split between corn and soybeans. As a family farmer who uses crop insurance, Bach has closely observed how the program functions and the negative impacts it has on farmers and the land around him. For example, he recently described how it fails to serve as a basic safety net when prices are down.

"I think [crop insurance] gave a lot of people a false sense of security that even if yields or prices fell they still had that revenue guarantee," said Bach. "Unfortunately, that lasts one year. If you come to a sustained period of lower prices, crop insurance is no longer that guaranteed profit. And that's kind of the paradox of crop insurance. When prices were high and we did not need any income protection, we received a great deal of it. Now as prices are falling and we could use a safety net, crop insurance is no longer that safety net.

"It's upside down. I don't know how bad you'd have to screw up and not make a profit under a high price scenario with crop insurance. And that led to a lot of the moral hazard there, where you were doing things you wouldn't normally do with the land because you'll make money regardless.

"Land was being put into production that should have never been put into production—that was a big factor with crop insurance. As one guy told me, 'The problem is there's a lot of guys not farming the land anymore, they're farming the crop insurance program.'"

3 2011 is the only year with detailed, publicly accessibly data, which was made public through a Freedom of Information Act request conducted by the Environmental Working Group (EWG), which made this information available on its website. EWG has done the public a service in finding this information and making it known.

4 These operations are likely much larger than the numbers indicate. Industrial potato operations, for example, often hold triple the number of acres they insure in a given year because they require a three-year rotation.

5 Environmental Working Group, "Concentration of premiums subsidies in the United States, 2011." Accessed 11/12/14. http://farm.ewg.org/cropinsurance.php?fips=00000&summpage=CONC2011&statename=

6 See footnote 1.

7 Strawberries: Counties with a 2013 Program," Accessed 11/12/14. www.rma.usda.gov/data/cropprograms/2013/0154.pdf

because of the lengthy application process. The majority of farmers that are enrolled in the crop insurance program utilize it with moderation as a risk management tool.

The Minnesota Example

Minnesota is a major user of crop insurance premium subsidies—for the period covering 1995 to 2012, the state ranked fourth nationally in terms of dollar amounts of premium subsidies provided.[8] In Minnesota, as in the rest of the country, the largest crop operations receive the bulk of publicly-funded benefits from crop insurance:

- Minnesota is home to two operations that in 2011 each received over $1 million in insurance premium subsidies, and an additional seven that each received more than $500,000 in premium subsidies that year.[9]
- That same year, 328 Minnesota farm operations — less than one-half of 1 percent of all Minnesota farms — received 12 percent of all crop insurance premium subsidies in the state, averaging more than $185,000.
- The top 10 percent of subsidy recipients represent just 4.1 percent of Minnesota's farms, but in 2011 they took in 46 percent of all taxpayer-funded premium subsidies paid in Minnesota for a total of more than $240 million.

Corporate Welfare

Ryan and Tiffany Batalden farm 380 acres near the southwestern Minnesota community of Lamberton. Ryan grew up on the adjacent farm, where his parents also raise crops. Ryan and Tiffany have a small herd of beef cattle and grow a three-year certified organic rotation of corn, soybeans and diversified small grains. Their diverse crop mix includes spring wheat, buckwheat, radish for seed production, barley with field peas and popcorn for a direct-marketing business.

The Bataldens utilize crop insurance as a way to protect themselves from being wiped out by weather disasters, but are concerned that in general it serves less as a safety net, and more as a way to consolidate wealth and land in rural communities.

"I think that there should be caps on total payments. It's corporate welfare when someone who has net income of over a half a million or a million dollars a year, then gets a 100, 200, 300,000 dollar check from the government, even though they still made a whole bunch of money that year," said Ryan. "It's ridiculous. The other thing is I think the government subsidizes the coverage at way too high of an amount. For not that crazy of a price we can cover 85 percent of the revenue for our field. I think it should be a lot lower, more in line with [making it so] at least you're not going to go broke that year. You shouldn't be able to make that much money on a bad year. See, they push it now as just a safety net, but it's not. It's like a guaranteed income net."

8 Environmental Working Group, "Premium Subsidies by State." Accessed 11/13/14. http://farm.ewg.org/cropinsurance.php?fips=00000&summpage=PS_TOPREGIONS_STATE&statename=

9 Environmental Working Group, "Largest premium subsidy policyholders in Minnesota." Accessed 10/28/14. http://farm.ewg.org/cropinsurance.php?fips=27000&summpage=LIST2011&statename=Minnesota

Both nationally and in Minnesota, the numbers show that through crop insurance there is a massive transfer of public resources to a small handful of large and well-capitalized commodity crop operations.

Biggest Subsidy Recipients in Minnesota

Table 1 shows the top 10 Minnesota crop insurance subsidy recipients in 2011, as well as the acres they insured and counties where they operate. The USDA only identifies insurance policyholders by an identification number and does not release the names of the operations.

Table 1: Top 10 Minnesota Recipients of Crop Insurance Premium Subsidies, 2011.[10]

Policyholder ID	Acres Insured	Crops Insured	MN County location	Premium Subsidy
207726545	26,835	corn, soybeans	Dakota, Dodge, Fillmore, Goodhue, Mower, Olmsted, Rice, Wabasha	$1,667,852
316515753	21,246	potatoes	Becker, Hubbard, Otter Tail, Pope, Sherburne, Cass, Wadena	$1,116,124
316653054	14,824	corn, dry beans, forage, soybeans, wheat	Clearwater, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake	$868,334
360600946	21,023	corn, green peas, corn seed, sugar beets, wheat, soybeans	Chippewa, Kandiyohi, Pope, Renville, Sibley, Stearns, Stevens, Swift, Douglas, Meeker, Redwood	$850,488
033614874	13,513	corn, soybeans, wheat	Polk, Red Lake, Pennington, Marshall	$605,499
316399315	17,061	corn, green peas, corn seed, soybean	Dakota, Dodge, Fillmore, Goodhue, Mower, Olmsted, Rice	$600,910
316391508	11,062	corn, dry beans, soybeans, wheat	Mahnomen, Norman	$581,549
209319383	10,331	corn, soybeans, sunflowers	Clay, Norman, Polk	$561,918
316774750	10,990	corn, soybeans, sunflower, wheat	Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake	$546,229
201164146	18,617	corn, soybeans, green peas, sugar beets, sweet corn	Kandiyohi, Meeker, Renville, Sibley, McLeod, Redwood	$482,454

Although the USDA does not release the names of farms that receive crop insurance premium subsidies, the Environmental Working Group has published the names of producers that receive federal direct commodity (Title 1) subsidies. A comparison of 2011 databases shows a close correlation between the largest Minnesota recipients of crop insurance premiums and their Title 1 counterparts. The Land Stewardship Project examined the data for the Minnesota operations that received over $1 million in premium subsidies that year. While these lists provided different sets of information[11], as we cross-referenced counties of operation, crops grown and scale of production, the correlations are strong enough to provide a reasonable conclusion: the biggest operations are receiving the

10 Environmental Working Group, "Largest premium subsidy policyholders in Minnesota." Accessed 10/28/14. http://farm.ewg.org/cropinsurance.php?fips=27000&summpage=LIST2011&statename=Minnesota

11 Annual Title 1 commodity payment data is available from 1995-2012 and includes the name of the subsidy recipient, but does not reveal the acres operated by that recipient. Crop insurance data is available only for 2011 and includes the acres and counties covered, but the USDA does not disclose the names of the beneficiaries.

A Land Price Inflater

Jon and Ruth Jovaag farm 500 acres near Austin in southern Minnesota, raising hogs, corn, soybeans and hay. Jon grew up on this farm, and returned several years ago to join his father. Jon feels crop insurance has inflated land prices to the point where beginning farmers like him are priced out of the market if they want to buy or rent land.

"To try and outbid some of these other guys doesn't seem to make great economic sense for us at this point. A lot of those guys who are running a lot of land, they know worst case scenario they're going to walk away with at least a few bucks an acre in their pocket," he said. "That's if all else fails and they never even start their combines in the fall, they're going to walk away with that. So they are able to drive rental prices up to where they can still clear a little profit, and then if things go well they'll make a huge amount.

"I don't want to go around saying that crop insurance or some government program is a bad thing. Food is an important part of a functioning society, and without it, we'd be in tough shape. But right now we have a program that is going to help the big get bigger. Ideally you'd like to have a program that will help you so that you can just get your crop in next year, but you're not going to walk away with a whole bunch of money in your pocket."

largest amounts of crop insurance premium subsidies.

For example, as Table 2 shows, county and crop information listed for Zumbrota-based Hader Farms Partnership, which was the top Title 1 commodity recipient ($320,000) for Minnesota in 2011, matches the particulars of that year's number one Minnesota crop insurance premium recipient in 2011 ($1,667,852 on 26,835 acres). (The number one Minnesota premium subsidy recipient for 2011 was ranked third nationally that year.[12]) In addition, one Minnesota potato producer took in $1,116,124 worth of insurance premium subsidies on 21,246 acres in 2011, making it the state's second largest premium subsidy recipient. The only Minnesota potato producer approaching that scale is Fargo-based R.D. Offutt, which also happens to be the nation's largest grower of that crop. Observations made in the countryside by farmers and Land Stewardship Project staff further verify that the state's largest crop producers are also the biggest beneficiaries of crop insurance subsidies.

Table 2: Top Crop Insurance Subsidy Recipient Correlated with Top Title 1 Commodity Subsidy Recipient in Minnesota, 2011.[13]

#1	Crop Insurance Subsidy	Title 1 Subsidy
	Policyholder 207726545	Hader Farms Partnership
Subsidy Amount	$1,667,852	$320,000
Indication of Scale	26,835 Insured Acres	#1 Title 1 recipient in Minnesota
Major Crops	corn, soybeans	corn, soybeans
MN Counties	Dakota, Dodge, Fillmore, Goodhue, Mower, Olmsted, Rice, Wabasha	Dodge, Fillmore, Goodhue, Mower, Olmsted, Rice, Wabasha

These statistics show that the current form of crop insurance is benefiting a handful of large cropping operations at massive public expense. This has been a major contributor to an unprecedented concentration of land

12 Environmental Working Group, "Largest premium subsidy policyholders in the United States, 2011." Accessed 11/12/14. http://farm.ewg.org/cropinsurance.php?fips=00000&summpage=LIST2011&statename=theUnitedStates

13 Environmental Working Group, "Farming Subsidies, Top Recipients in 2011." Accessed 11/12/14. http://farm.ewg.org/top_recips.php?fips=27000&progcode=totalfarm&yr=2011&regionname=Minnesota; Environmental Working Group, "Largest premium subsidy policyholders in the United States, 2011." Accessed 11/12/14. http://farm.ewg.org/cropinsurance.php?fips=00000&summpage=LIST2011&statename=theUnitedStates

and wealth in rural communities throughout Minnesota and across the Midwest. The latest U.S. Census of Agriculture found that between 2007 and 2012, the number of farms in the U.S. dropped 4.3 percent while the average size of farms rose 3.8 percent.[14] The Census found that in Minnesota, for example, a short-term trend of increased farm numbers has been reversed. The only size category of Minnesota farms that increased from 2007 to 2012 was the one consisting of operations over 2,000 acres in size—their numbers jumped by 14 percent, according to University of Minnesota Extension economist Dale Nordquist.[15]

Favoring Industrial Agriculture with Public Dollars

Federally subsidized crop insurance promotes a narrow range of agricultural production— one that is dominated in the Upper Midwest by monocultures of corn and soybeans. It does this by offering the most expansive, consistent coverage for these crops in the Midwest, while crops like buckwheat, alfalfa, hay, fruits, and vegetables receive spotty coverage, are more difficult or impossible to insure, and often offer much less robust coverage. Nationally in 2011, corn, soybeans and wheat made up 64 percent of policies sold and 76 percent of premium subsidies went to those crops.[16] Crop insurance isn't the only risk management tool a farmer has—practices like crop rotation, cover crops, diverse mixes of crops and livestock, windbreaks of trees, and grassed strips along waterways are other tools farmers have used over the years to protect their operations from severe weather, as well as extreme fluctuations in markets.[17] But because crop insurance heavily rewards intensive production of just a few types of row crops, farmers utilizing diverse systems are put at a significant disadvantage.

A Land Destroyer

Loretta Jaus runs a 410-acre organic dairy with her husband Martin near Gibbon in west-central Minnesota. Loretta has seen firsthand the impact the current crop insurance program has had on increasing corn and soybean production, as well as consolidating land holdings in her community.

"In 2012 I had a bunch of meetings and I was driving into the Twin Cities five times that summer and each time I made that 52-mile trip from here to Henderson on Highway 19, another farm was for sale," she recalled. "Then they had taken out the bulldozers and dozed the homestead, trees, wetlands and planted over it. One-after-the-other. That's what happened to this farm down the road—dozed. And yeah, that's having an impact on Main Street businesses, on the number of our neighbors—it's having a big impact.

"I did see a record of land going for $13,500 per acre. Those big farms impact the price of land, because all the other landowners see what they're paying and say, 'Well I can get that!' And they hold out for those kinds of prices. People really watch it."

Crop insurance's bias against diversity on the landscape has caused well-documented environmental problems. As national studies show, increased crop 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

14 2012 U.S. Census of Agriculture, "Preliminary Report Highlights: U.S. Farms and Farmers," February 2014. USDA National Agricultural Statistics Service, www.agcensus.usda.gov.

15 Karnowski, Steve. "Number of Minnesota farms declines 8 percent," Associated Press, May 2, 2014, www.washingtontimes.com/news/2014/may/2/number-of-minnesota-farms-declines-8-percent/?page=all

16 "Crop Insurance Data in the United States," Environmental Working Group. Accessed 11/13/14. http://farm.ewg.org/cropinsurance.php

17 "2012-2013 Cover Crop Survey," North Central Sustainable Agriculture Research & Education/Conservation Technology Information Center, June 2013. www.northcentralsare.org/content/download/70390/998785/SARE-CTIC_CC_Survey_Report_V2.8_(1).pdf?inlinedownload=1

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.[18]

This creates a situation where the public pays twice: first to subsidize a monocultural method of producing crops, and then again to fix the damage to the environment caused by an overreliance on this method of farming.

A Black Hole of Public Funds

Federally subsidized crop insurance is expensive, costing the federal government $58.7 billion between 2003 and 2012, and $14 billion in 2012 alone.[19] Despite calls for reform and fiscal conservatism, Congress has continued to increase tax dollars spent on federally subsidized crop insurance. Over the past five years, crop insurance has replaced direct commodity payments as the largest use of public dollars to subsidize agribusiness' maximum production of a few favored crops.

The program as it is currently constructed makes no economic sense, according to Iowa State University economist Bruce Babcock, who has studied crop insurance extensively. Babcock and other economists are particularly critical of the expense involved with covering revenue losses.

"This has doubled the cost to taxpayers and opened the door for large payments to producers who suffer only paper losses," he says.[20]

18 Lubowski, R., Claassen, R., Roberts, M. "Agricultural Policy Affects Land Use and the Environment," Amber Waves, Vol., 4, Issue 4, September 2006. USDA Economic Research Service, www.ers.usda.gov/amber-waves/2006-september/agricultural-policy-affects-land-use-and-the-environment.aspx#.VGQdRue8wo8

19 RMA, Fiscal years government cost of federal crop insurance. Accessed 11/12/14. www.rma.usda.gov/aboutrma/budget/fycost2003-12.pdf

20 Babcock, Bruce, "The Revenue Insurance Boondoggle: A Taxpayer-Paid Windfall for Industry." Environmental Working Group, Nov. 3, 2011, static.ewg.org/

While much was made by some media, politicians and commodity groups that the commodity payment system underwent major budget cutting under the 2014 Farm Bill, the money was simply transferred to federally subsidized crop insurance. Much of the "real" budget cutting in 2014 came at the expense of popular programs that support conservation — e.g. the Conservation Stewardship Program — and hungry Americans — e.g. the Supplemental Nutrition Assistance Program, or SNAP. Unlike crop insurance, these are initiatives that benefit a broad spectrum of farmers and other Americans.

As a result of the 2014 Farm Bill, public dollars are still being used to subsidize massive production of a handful of commodities — the only difference is a different vehicle is being used to transport that money. Unlike other federal programs, there are no income limits for those who receive crop insurance premium subsidies or indemnity payments, nor limits to the amount any one agricultural operator can receive. Thus, the biggest agricultural producers can receive huge payouts even in years when the market is paying high prices for commodity crops.

Table 3: Federal Spending on Crop Insurance, Fiscal Years 2003–2012.[21]

Year	Premium Subsidy	Underwriting Losses	Administrative Reimbursements	Additional Costs	Total Government Costs
2003	1,874,000,000	822,000,000	743,000,000	149,000,000	3,588,000,000
2004	2,387,000,000	(305,000,000)	900,000,000	143,000,000	3,125,000,000
2005	2,070,000,000	(293,000,000)	783,000,000	139,000,000	2,699,000,000
2006	2,517,000,000	(32,000,000)	960,000,000	125,000,000	3,570,000,000
2007	3,544,000,000	(1,068,000,000)	1,341,000,000	123,000,000	3,940,000,000
2008	5,301,000,000	(1,717,000,000)	2,016,000,000	137,000,000	5,737,000,000
2009	5,198,000,000	108,000,000	1,602,000,000	131,000,000	7,039,000,000
2010	4,680,000,000	(2,523,000,000)	1,371,000,000	143,000,000	3,671,000,000
2011	7,376,000,000	2,392,000,000	1,383,000,000	144,000,000	11,295,000,000
2012	7,149,000,000	5,370,000,000	1,411,000,000	141,000,000	14,071,000,000
Total	42,096,000,000	2,754,000,000	12,510,000,000	1,375,000,000	58,735,000,000

Conclusion

Public dollars are meant to be spent to increase the broad public good — that means all farmers, whether they use crop insurance or not, as well as rural community members and everyone who is affected by our food and farming system. The federal government has a powerful role to play in shaping agriculture and the effect it has on people, the land and the economy. By concentrating wealth and landholdings in the hands of some of the largest cropping operations in the country, federally subsidized crop insurance has become a major driver of negative changes within our communities and on the land. And yet these changes are being financed by the average American at an increasingly higher cost.

pdf/Crop_Insurance.pdf

21 RMA, Fiscal years government cost of federal crop insurance. Accessed 11/12/14. www.rma.usda.gov/aboutrma/budget/fycost2003-12.pdf

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.**