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THE THOMAS JEFFERSON INSTITUTE
FOR PUBLIC POLICY

June 2018

FEDERAL CROP INSURANCE: A CRUCIAL PUBLIC/PRIVATE PARTNERSHIP



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Thomas Jefferson Institute for Public Policy

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**Federal Crop Insurance:
A Crucial Public-Private Partnership**

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Introduction

Public Private Partnerships have become an important part of the effort to wean government away from “total control” of certain areas: transportation, construction of buildings, certain service delivery systems, etc. When government programs can’t be totally privatized, or sold, or eliminated then a partnership is considered in order to bring some “market oriented forces” to play in making government more “business like” and thus more efficient and, hopefully, more effective.

Agriculture has been an important focus of the federal government from the very beginning. Trade policy has been used from our earliest times to promote American agricultural goods. So federal involvement in agriculture is nothing new. However, what is exciting is that the government seems to be pulling back from total control to partnerships with the private sector. At least that is the case with the federal crop insurance program.

This paper, “Federal Crop Insurance: A Crucial Public Private Partnership,” outlines the history and current status of this important program. As the author, Jim Musser, outlines in some detail, this program is one where the government and the private insurance market have partnered in order to provide some stability to what is a very unpredictable or crucial part of our everyday lives – the food stuffs that we consume and send overseas to feed millions who would otherwise starve.

As a consequence of the historic “Dust Bowl” tragedy and during the Great Depression of the 1930’s, the federal government decided it alone could remedy the results of natural disasters and the food shortages created by climate’s unreliability. So President Franklin Roosevelt created a federal crop insurance program. Over the years, this program proved less than adequate with Congress having to pass one special “bail out” after another following a drought, hurricane, spring floods, etc.

Over time, as Congress realized that there are times when the private sector needs to become part of the solution to national needs, the current crop insurance program became a partnership where the government pays just over 60% of the actuarially sound rate as established by USDA and the farmers pay just under 40%. Whether those percentages are optimal, this paper does not determine that. Whether today’s federal crop insurance partnership opens up the door to additional possibilities where the private sector can bring efficiencies, effectiveness and best practices to bear is not the purpose of this paper. However, history shows that public private partnerships can be very effective if carefully and properly designed and executed. There is no reason to believe that more such partnerships couldn’t help bring costs down and lessen the involvement of government in our daily lives – in agriculture as well as other industries.

Here in Virginia, 6,580 crop insurance policies cover 1.2 million acres of farmland and provide more than \$500 million in protection. And our farmers spend nearly \$23 million from their own pockets for this insurance protection, helping offset government cost.

We hope this study can be used as the basis to promote still better policies and programs. The current Federal Crop Insurance Program seems to be working well, is not expensive, brings the farmer into the relationship and proves that when the government and private sector interests can be brought to bear to help resolve a problem, the results can be beneficial to all concerned. In this case, the farmer is helped, the food we buy every day at the grocery store or restaurant is there when we want it, people all over the world are fed by American farmers, and the federal government has a much lesser financial stake in this program than it did a decade or two ago.

We hope this paper generates a serious discussion on how to replicate successful public private partnerships throughout government and that his particular program might well be used as an example of how such joint effort can succeed. Of course, every program should be re-examined and improved wherever possible. This paper hopefully opens up a serious discussion to further improve the Federal Crop Insurance Program if that is a worthy goal, and that this program be used as an example of how a public private partnership can succeed.

A handwritten signature in black ink, appearing to read "Mark Thompson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chairman and President
Thomas Jefferson Institute for Public Policy
June 2018

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Key Findings

- The U.S. has always had an agriculture policy and it has evolved over the years; the modern federal crop insurance program is a significant step in that evolution.
- The current version of federal crop insurance is a public-private partnership in which farmers, private insurance companies, and the federal government share the burden of agricultural risk stemming from drought, flood, disease, and other natural disasters.
- Data strongly appear to suggest that the current public-private partnership federal crop insurance program may be both less costly than ad hoc disaster aid legislation and more efficient in addressing agricultural risk management.
- The federal expenditure for the crop insurance program is relatively small compared both to the size of the federal budget and the value of agriculture in the U.S. economy.
- Federal crop insurance is a key factor in the health of the rural economy not just to the farmers who purchase it.
- Policymakers have indicated that the current federal crop insurance program is working as intended and do not plan to undermine it with unnecessary changes to the program.
- Federal crop insurance provides food security for the U.S. and much of the world.

Executive Summary

Federal crop insurance has become the premier means of ensuring that our food supply continues securely even in the face of drought, flood, pestilence, and other uncontrollable forces with which man has contended since the dawn of agriculture. This paper examines questions about the origin, efficacy, and on-going need for such a safety net. This paper does not attempt to address every aspect of crop insurance and its complex relationship to other farm programs. It is intended to be a primer.

Why Crop Insurance

The modern public-private partnership crop insurance program was born out of the devastation of the Dust Bowl and the Great Depression of the 1930s. It was intended to be a tool to help restore the farm economy which had been so badly damaged by the twin troubles of depression and natural disaster. In 1938, because private attempts at providing multi-peril crop insurance had failed, Congress recognized the need for government action and passed legislation creating an experimental crop insurance program to be administered by the Federal Crop Insurance Corporation (FCIC). The experiment was limited to a few major crops in a few growing areas and did not become a permanent program until the Federal Crop Insurance Act of 1980 expanded crop insurance to multiple crops in multiple areas of the country.

Even though Congress provided a subsidy of thirty- percent of the cost of the insurance premium, participation in the program lagged. After major weather episodes in the late 1980s and early 1990s, Congress passed billions of dollars' worth of ad hoc disaster relief bills. After passing disaster aid packages in 1988, 1989, 1992, and 1993, Congress passed the Federal Crop Insurance Reform Act of 1994 which made participation in crop insurance mandatory for farmers seeking various loans and benefits including eligibility for certain price support programs.

Congress later repealed the mandatory nature of the program, increased premium supports, and required farmers to maintain crop insurance as a condition for eligibility in any disaster relief programs that might be available in a particular crop year. These changes have led to crop insurance coverage of nearly 300 million acres of approximately 340 million acres under cultivation.

In 2000, Congress enhanced the role of the private sector by allowing private companies to participate in research and development of new insurance products. Even most critics of the program have not called for its abolition but have called for arbitrary cuts essentially unrelated to the efficacy of the program or innovations that have been introduced by crop insurance. The use of private insurers, with crop loss adjusters to assess the actual losses on a farm-by-farm basis, is clearly superior to the blunt instrument of as hoc legislation that cannot possibly assess precise, actual damage and place resources appropriately.

Program Costs and Benefits in Perspective

When examining a program such as crop insurance, the cost of the program always arises and critics, though well meaning, look to this tiny program in an effort to help balance the federal budget. Too often they fail to place the program in the proper perspective relative to the rest of federal spending and its benefit to the entire rural economy.

The FY19 Budget Proposal from the Trump Administration is approximately \$4.1 trillion. The total portion devoted to agricultural spending is roughly six percent of the budget proposal and the Supplemental Nutrition Assistance Program (SNAP), commonly known as food stamps consumes between 70% and 80% of the agriculture budget. Crop insurance accounts for roughly eight percent of the agriculture budget and makes up approximately one-quarter of one percent of overall federal spending or approximately \$8 billion annually. If crop insurance was eliminated completely from the budget, it would have virtually no impact on the size of the budget deficit or the national debt but would be significantly detrimental to America's farmers and the rural economy.

While nobody wants the federal government to waste resources, attempting to balance the budget by cutting the crop insurance program is akin to draining the Potomac River with an eye-dropper. It might be an interesting intellectual exercise but misses the mark entirely.

The benefit of crop insurance, in stark contrast to the relatively small federal expenditure, is that next year's crop can still be planted even if there is a catastrophic drought or flood this year. That means not just income security for the individual farmer but a lifeline to rural America and food security for all of us.

The Value to the Farm Economy

Agriculture and agriculture-related industries add \$992 billion annually to the American economy, or a bit more than 5.5% percent of the entire U.S. economy. Crop insurance is a vital component in the success of this segment of the economy. It ensures the food supply and raw materials for other value-added manufacturing, such as food processing and textile manufacturing, among others, will continue even in the face of natural disaster and disease. These benefits come at a cost of roughly \$8 billion per year to insure \$992 billion in economic production.

The farm economy has suffered serious setbacks over the last four years in terms of depressed commodity prices and multiple natural disasters including hurricanes, drought, and wildfires. Farmers have had to borrow more to continue to operate and their ability to take on more debt is largely contingent on crop insurance coverage. Entire rural communities depend upon the

farmer's ability to secure capital to invest in farm equipment, seed, fertilizer and other inputs of production.

Conclusion

The federal crop insurance program, when considered from the perspective of return on investment, provides a crucial component for the success of the farm economy at a relatively low cost to the federal budget. The fact that crop insurance is a public- private partnership means everyone helps share the cost unlike older farm commodity programs which put the cost burden entirely on the taxpayer. At a cost of approximately \$8 billion to insure the \$992 billion agriculture adds to the economy, the return on investment is difficult to dispute. Widespread coverage by crop insurance also means that a natural disaster or disease will not prevent the next crop from being planted and that is crucial in a hungry world.



History and Mechanics

History

In response to the devastation of the farm economy caused by the Dust Bowl and the Great Depression, the U.S. Government began experimenting with crop insurance as a means of restoring the economy of rural America. Private sector efforts to sell multi-peril crop insurance, beginning as far back as the late 1800s, had been attempted without success because the policies covered areas too small to create an adequate risk pool and the companies lost money.¹

President Franklin Roosevelt signed the Agricultural Adjustment Act of 1938 into law for the purpose of “promoting the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance.” The new law created the Federal Crop Insurance Corporation (FCIC), within the U.S. Department of Agriculture (USDA), to oversee and run the crop insurance program and the Commodity Credit Corporation to oversee support programs for farm commodities.²

In those early years of experimentation and until 1980, when major changes were enacted, the crop insurance program focused primarily on a few major staple crops such as corn, wheat, and soybeans. The program was also geographically limited to areas producing those important commodities. Most farm programs in those days focused on controlling the amount of commodities entering the marketplace to keep prices from falling rather than focusing on risk management. Those were the days of government paying farmers to take land out of production, government set quotas, and government run grain reserves.

Crop insurance also found itself in competition with free disaster coverage provided by the Farm Bills prior to 1980. Needless to say, participation in crop insurance was not widespread given the costs of premiums for the insurance versus the no-cost disaster relief.³

As Congress grappled with the best ways to support a strong agricultural sector in the economy, the decision was taken to amend the law with the adoption of the Federal Crop Insurance Act of 1980.⁴ To encourage greater participation in crop insurance and end the no-cost disaster coverage that had been put in place in earlier decades, the new law provided a discount of thirty percent of the premium cost limited to the dollar amount at sixty-five percent coverage. In other words, the government would pay thirty percent of the premium for coverage of sixty-five

¹ Kramer, Randall, “Federal Crop Insurance 1938-1982,” *Agricultural History*, vol. 57, no. 2, (April 1983), pp. 181-200

² 7 USC 1502 §502 (a) Agricultural Adjustment Act of 1938

³ <https://www.rma.usda.gov/aboutrma/what/history.html> See also: <http://sustainableagriculture.net/blog/2018-farm-bill-commodities/>

⁴ P.L. 96-365 <https://www.gpo.gov/fdsys/pkg/STATUTE-94/pdf/STATUTE-94-Pg1312.pdf>

percent of the farmer's loss. Although there was some increase in participation in the program with this level of support in place, it nonetheless fell short of congressional expectations.⁵

In the late 1980s and early 1990s Congress enacted a series of farm disaster aid bills after a number of severe weather disasters ranging from drought to extremes of wet and cold weather.⁶ After ad hoc bills in 1988, 1989, 1992, and 1993 Congress passed the Federal Crop Insurance Reform Act of 1994.⁷

The 1994 Act was a major shift away from ad hoc legislation and made participation in the crop insurance program mandatory for any farmers seeking to participate in a number of other federal agricultural benefits. The bill also created a relatively low-cost catastrophic coverage that was completely subsidized by the taxpayer with the farmer only responsible for \$50 per-crop, per-county, to participate. The catastrophic coverage indemnified the farmer up to 50% of an average yield paying up to 60% of the price of the crop established at the beginning of that crop year. Farmers could purchase more coverage than the catastrophic plan offered for a higher premium which was also subsidized.

The mandatory participation requirement was repealed in 1996 but crop insurance coverage remained a prerequisite for receipt of a number of farm benefits including participation in any disaster relief programs. These provisions remain in force.⁸

The Risk Management Agency (RMA) was also created in 1996 to oversee, on behalf of the FCIC, the crop insurance program and develop educational programming to help farmers learn about and implement market-based risk management techniques. The RMA works with private sector Approved Insurance Providers (AIPs) to provide the public-private partnership that make crop insurance widely available.⁹

By 1998, the use of crop insurance had expanded rapidly. More than three times the acreage was covered by crop insurance than had been covered ten years earlier and twice as much as five years earlier.¹⁰ As of 2016 approximately 300 million acres are covered by crop insurance of nearly 340 million acres under cultivation.^{11, 12}

⁵ "History of the Crop Insurance Program", Risk Management Agency, U.S. Department of Agriculture <https://www.rma.usda.gov/aboutrma/what/history.html>

⁶ *ibid.*

⁷ P.L. 103-354 <https://www.gpo.gov/fdsys/pkg/STATUTE-108/pdf/STATUTE-108-Pg3178.pdf>

⁸ See "History", *infra*, <https://www.rma.usda.gov/aboutrma/what/history.html>

⁹ "About the Risk Management Agency", U.S. Department of Agriculture, August 2016, <https://www.rma.usda.gov/pubs/rmc/aboutrma.pdf>

¹⁰ See "History", *infra*, <https://www.rma.usda.gov/aboutrma/what/history.html>

¹¹ Shea, John, "USDA Builds on Record of Crop Insurance Success for America's Farmers and Ranchers", Risk Management Agency, Release No. RMA-16-075, July 7, 2016, <https://www.rma.usda.gov/news/2016/07/cropinsurance.pdf>

¹² Lubowski, Ruben N., et als., "Environmental Effects of Agricultural Land-Use Change" Chapter 2, page 6, USDA Economic Research Service, Economic Research Report, No. 25, August, 2006, https://www.ers.usda.gov/webdocs/publications/45609/17586_err25b_1.pdf?v=41056

Congress further expanded the role of the private sector in providing crop insurance with legislation in the 2000s. The RMA was empowered to create partnerships and enter contracts with private organizations to create new insurance products and to do the necessary research and development to produce new and innovative insurance products. Private enterprises were also empowered to bring unsolicited proposals to the RMA with the goal of creating expanded opportunities for farmers to manage their risks.¹³

The Agricultural Act of 2014 (P.L. 113-79), more commonly known as the 2014 Farm Act, makes insurance coverage available for more than 100 crops including fruits and vegetables, and organics in addition to traditional field crops such as corn, wheat, soybeans, and cotton. The 2014 Farm Act also created a number of new insurance products intended to assist farmers in undertaking risk management.¹⁴ This is particularly noteworthy because Congress had removed older direct payment programs that, for many decades, had been mainstays of the agricultural safety net.¹⁵

The 2014 Farm Bill generally expanded crop insurance which many Members of Congress now consider the most important part of the farm safety net. Congress debated but did not adopt premium caps or insurance limits which have been used in setting farm commodity program payments for specific crops such as corn, peanuts and wheat.¹⁶

The House Agriculture Committee has said that in approaching the upcoming 2018 reauthorization of the Farm Bill, crop insurance will be addressed. The Committee's bill highlights statement says, "At the request of virtually every farmer, rural banker, and rural business in the country, the farm bill protects crop insurance. Some improvements are made but, overall, the farm bill doesn't fix what isn't broken."¹⁷ The improvements focus largely on authorizing more research by FCIC into development of insurance products to deal with hurricane damage and risk management tools for new farmers.¹⁸

¹³ See "History" infra. <https://www.rma.usda.gov/aboutrma/what/history.html>

¹⁴ "The Farm Bill", Current Issues, Risk Management Agency, <https://www.rma.usda.gov/news/currentissues/farbill/index.html#sco>

¹⁵ "Path to the 2018 Farm Bill: Commodities and Crop Insurance", NSAC Blog, National Sustainable Agriculture Coalition, March 20, 2017, <http://sustainableagriculture.net/blog/2018-farm-bill-commodities/>

¹⁶ Shields, Dennis, A., Congressional Research Service, Crop Insurance Provisions in the 2014 Farm Bill, accessed via <http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R43494.pdf> Note: The Bi-partisan Budget Act of 2018 (P.L. 115-123) which was signed into law March 23, 2018, makes all non-classified CRS Reports public. Previously, these reports by the Congressional Research Service of the U.S. Library of Congress had been considered confidential and could not be cited in other works of research.

¹⁷ House Committee on Agriculture Fact Sheet, https://agriculture.house.gov/uploadedfiles/agriculture_and_nutrition_act_top_10_highlights.pdf

¹⁸ House Committee on Agriculture Section – by-Section Analysis of the Agriculture and Nutrition Act of 2018, https://agriculture.house.gov/uploadedfiles/agriculture_and_nutrition_act_of_2018_section_by_section.pdf

How It Works

Federal crop insurance involves a contract between the farmer and a private insurance company for premiums paid by the farmer and subsidized by the federal government through the RMA acting on behalf of the FCIC. Although completely private sector single-peril crop insurance can be purchased to cover highly localized single dangers such as fire or hail damage, federal crop insurance is the primary multi-peril crop insurance available.¹⁹

The RMA approves a number of private insurance companies to sell the multi-peril insurance coverage in each state and subsidizes the premium as well as paying certain administrative and operating (A&O) costs of the insurer. The farmer decides the level of coverage necessary to mitigate his risk of loss and pays his portion of the premium and bears the burden of loss for his deductible, like other insurance. The insurance company bears the portion of the risk of loss up to a certain point after which it is covered by its Standard Reinsurance Agreement (SRA) with the government.

The SRA sets forth the terms by which the insurer and the federal government share the insurance risk. These agreements vary based on the crop, the state in which it is planted, and other factors. In seven of the seventeen years in the period from the year 2000 through 2016, payments to the farmer exceeded the premiums paid by the farmer; but, in ten of the years in that period the payments to the farmers amounted to only 92% of the combined premium paid by the farmer plus the government support thereby reducing the cost of the program to the government in those years.²⁰

The farmer agrees to cover all the acreage of a crop planted in a particular county. All of the eligible acreage must be covered to prevent any gaming the system, sometimes referred to as adverse selection, because the farmer is likely to have more in-depth knowledge of the risks associated with the land and its productivity than the insurance company.

Contracts cover a crop year and the insurance company agrees to indemnify the farmer for losses occurring in that year. Either party may cancel the contract at the end of the crop year, but, unless the contract is canceled by one of the parties, it is routinely renewed for the next crop year. The insurance may cover yield loss or price loss or both. Insurance may also indemnify for the inability to plant, or severe quality losses due to severe weather. The scope of coverage may vary somewhat due to the differences in individual crop types.²¹

¹⁹See “History”, infra, <https://www.rma.usda.gov/aboutrma/what/history.html>

²⁰“Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program”, Congressional Budget Office, December 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53375-federalcropinsuranceprogram.pdf>

²¹ See “History”, infra, <https://www.rma.usda.gov/aboutrma/what/history.html>

As under the 1994 Act, catastrophic coverage (CAT) is also still available to provide the barest minimum coverage for a nominal administrative fee. CAT covers up to 55% of the loss of expected value based on 50% of the harvest. CAT coverage, however, makes up only 4% of all policies.²²

The FCIC plays the lead role in developing crop insurance policies. Insurance products may also be developed by private companies which must be approved by the FCIC. Insurance policies developed by the FCIC are printed in the Code of Federal Regulations where the public may see them and provide feedback to the agency.²³

One area in which supporters of crop insurance have expressed a need for change is in Section 508(h) of the Federal Crop Insurance Act, which allows private sector individuals or groups to offer ideas for insurance products. There is demand for even greater input from private individuals and organizations in developing insurance products.²⁴



²² See “Options”, *infra*, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53375-federalcropinsuranceprogram.pdf>

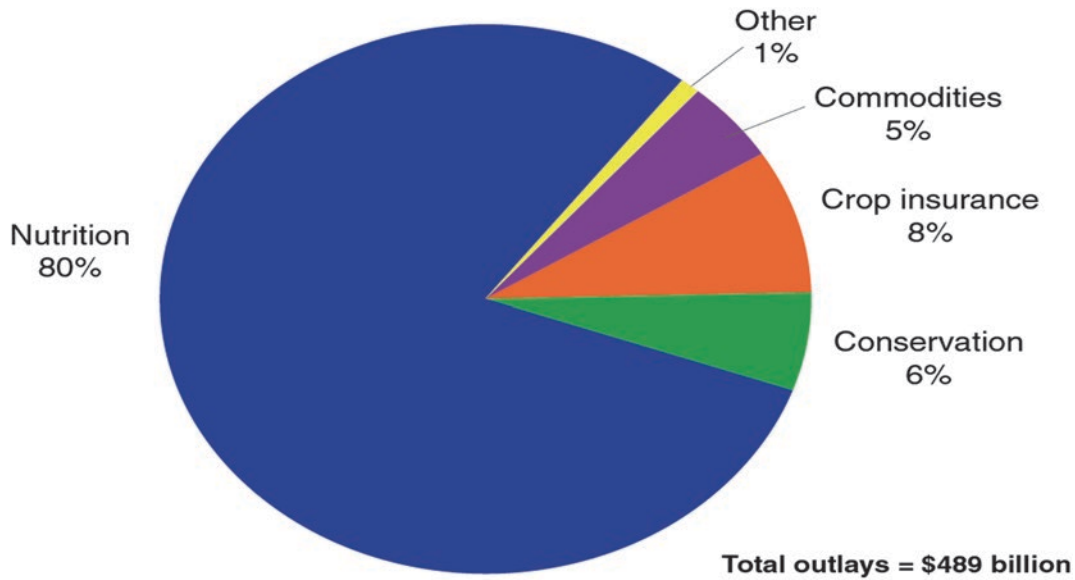
²³ See “History”, *infra*, <https://www.rma.usda.gov/aboutrma/what/history.html>

²⁴ Interview with Hon. Kenneth Ackerman, former Administrator of the Risk Management Agency and Manager of the FCIC Crop Insurance Corporation. April 12, 2018

Program Cost and Value to the Economy

As use of federal crop insurance has grown and replaced other aspects of the farm safety net, program costs to the federal government for crop insurance have also grown. Because of that growth, critics seeking policy changes to rein in federal spending have put a large target on the program.²⁵ The following chart provides insight into the size of the expenditures for crop insurance relative to the total for federal agriculture programs.

Projected outlays under the 2014 Farm Act, 2014-2018



Source: USDA Economic Research Service using data from Congressional Budget Office, Cost Estimates for the Agricultural Act of 2014, Jan 2014.

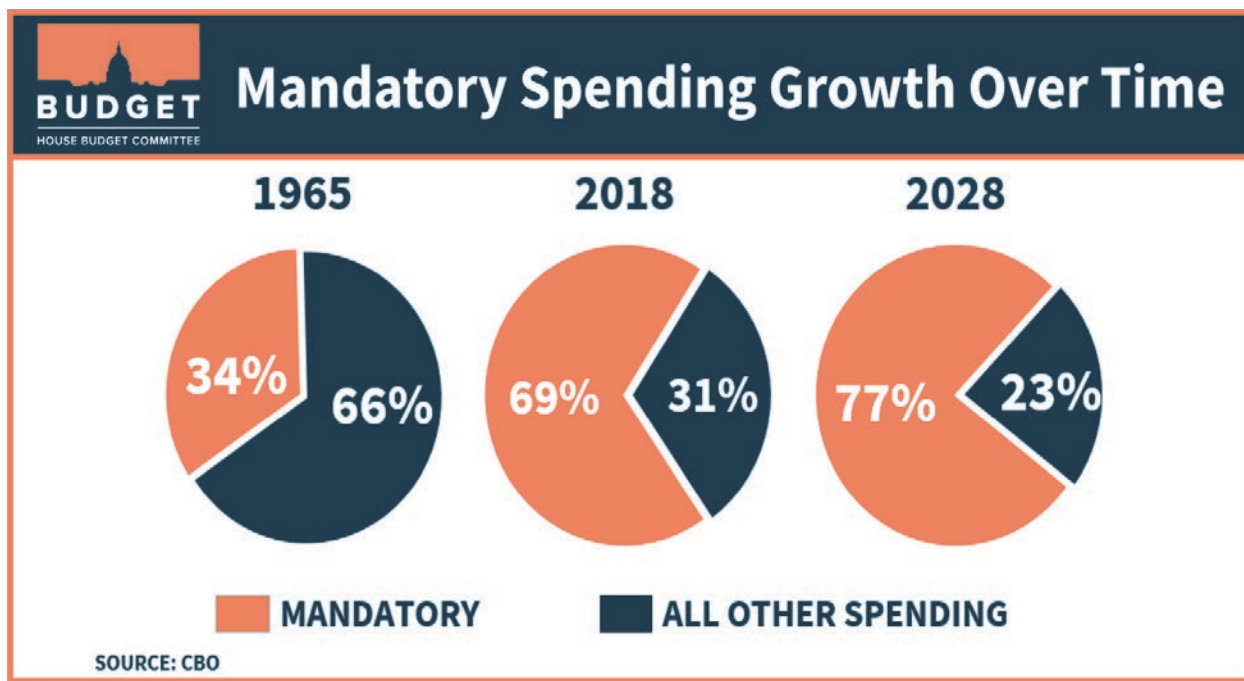
As the chart indicates, the Congressional Budget Office (CBO) estimates total federal outlays for agricultural spending to be \$489 billion over the five years of the 2014 Farm Act's authorization. If the eight percent of the Agriculture Budget devoted to crop insurance was eliminated completely, the outlays would still be \$449.88 billion for agriculture. In a budget of more than \$4,100,000,000,000 removing approximately \$40 billion still leaves federal spending at \$4,060,000,000,000. Such a change would have a dramatic impact on American farmers and the

²⁵ See: Bakst, Daren et als., "Farms and Free Enterprise: A Blueprint for Agricultural Policy", Heritage Foundation, September 21, 2016, <https://www.heritage.org/agriculture/report/farms-and-free-enterprise-blueprint-agricultural-policy> See also: Smith, Vincent H., "Achieving Rational Farm Subsidy Rates", R Street Institute, Policy Study No. 113, October, 2017, <http://2o9ub0417chl2lg6m43em6psi2i.wpengiengine.netdna-cdn.com/wp-content/uploads/2017/10/113.pdf>

economy of the Heartland but would fail to scratch the surface in moving the federal budget to balance. Simply put, if balancing the budget is the issue, there just is not enough money in agriculture outlays to get us there.

It is also important to note that the agriculture budget for FY2018 is smaller than the budget in the preceding fiscal year. Discretionary Spending for FY2018 is expected to be approximately \$4 billion less than in FY2017 and Mandatory Spending is expected to be approximately \$7 billion less than FY2017.²⁶

This chart indicates how the composition of the federal budget has changed over the years and provides the real focus for balancing the budget – most mandatory spending is driven by Social Security, Medicare, Medicaid and other health programs, and the rapidly growing interest on the national debt, which constitute some of both the largest and fastest growing portions of federal spending.²⁷



The president and the House Agriculture Committee are actively taking steps to address the growth of the SNAP program both through presidential executive order and new work

²⁶ USDA FY2018 Budget Summary <https://www.usda.gov/sites/default/files/documents/USDA-Budget-Summary-2018.pdf>

²⁷House Budget Committee working paper, "The Need to Control Automatic Spending and Unauthorized Programs", August 9, 2016, https://budget.house.gov/uploadedfiles/direct_spending.pdf Note: Discretionary Spending covers programs which are funded by Congress through the annual appropriations bills. Mandatory Spending covers programs not subject to annual appropriations but which are funded automatically based on the recipient's meeting the eligibility requirements set forth by law. These programs are generally referred to as entitlements because the recipient is entitled to the benefit based on meeting the criteria in the law such as Social Security or Medicare beneficiaries. See also, <https://economics21.org/html/rising-entitlements-3050.html> -

requirements in the House version of the 2018 Farm Bill.²⁸ As shown by the previous chart entitled “Projected Outlays Under the 2014 Farm Act”, SNAP is clearly the largest component of agricultural spending and a more logical target of cost savings than crop insurance. However, even SNAP is not a significant driver of federal spending in the same manner as Social Security, Medicaid, and interest on the national debt.²⁹ Critics of crop insurance costs tend to be engaged in the proverbial straining a gnat and swallowing a camel by focusing on the program from a budget balancing standpoint.

The fair question that can and should be asked of all programs is not simply what it costs but what value the program adds to the economy and American society. Focusing solely on cost without examining the benefits, indubitably, leads to misunderstanding the true value of a program. While government programs should always be subject to oversight and scrutinized for waste, fraud and abuse, it is a false premise to assume that all federal spending is wasteful and does not provide the taxpayer a fair benefit for the funds expended.

Perhaps the most contentious issue is whether the cost of crop insurance is greater than the cost of ad hoc disaster legislation that Congress routinely provided to the agricultural sector over the history of the Republic. Critics claim the costs are too great and supporters of the program contend the opposite. Some critics even argue that we should simply have no agricultural policy at all.³⁰ That position seems more than a bit unlikely given that the United States has had a federal agricultural policy virtually from the time of the adoption of the Constitution.³¹

The Congressional Budget Office (CBO), which does not offer an ideological point of view but simply responds to congressional requests for policy options, equivocates on the point of crop insurance cost versus the historic ad hoc disaster relief legislation. The CBO analysis, from December 2017, says, “There is no consensus measure of exactly how much participation in the program (crop insurance) changes in response to changes in federal support. Moreover, data limitations preclude a more thorough analysis of that question.”³² CBO does concede that in the years 2011 and 2012, unlike the period from 1994 through 2010 during which participation in the crop insurance program grew dramatically, “In those two years, (2011, 2012) producers received

²⁸ Executive Order “Reducing Poverty in America by Promoting Opportunity and Economic Mobility”, signed April 10, 2018. <https://www.whitehouse.gov/presidential-actions/executive-order-reducing-poverty-america-promoting-opportunity-economic-mobility/> See also: House Committee on Agriculture Fact Sheet for the Agriculture and Nutrition Act of 2018, https://agriculture.house.gov/uploadedfiles/agriculture_and_nutrition_act_snap.pdf

²⁹ CBO Monthly Budget Review, March 2018, <https://www.cbo.gov/publication/53718>

³⁰ Edwards, Chris, Reforming Federal Farm Policies, Cato Institute, April 12, 2018, <https://object.cato.org/sites/cato.org/files/pubs/pdf/tbb-82.pdf>

³¹ Owens, Raymond E., An Overview of Agricultural Policy...Past, Present, and Future, Federal Reserve Bank of Richmond, Economic Review May/June 1987 accessed via <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.1007.2867&rep=rep1&type=pdf>

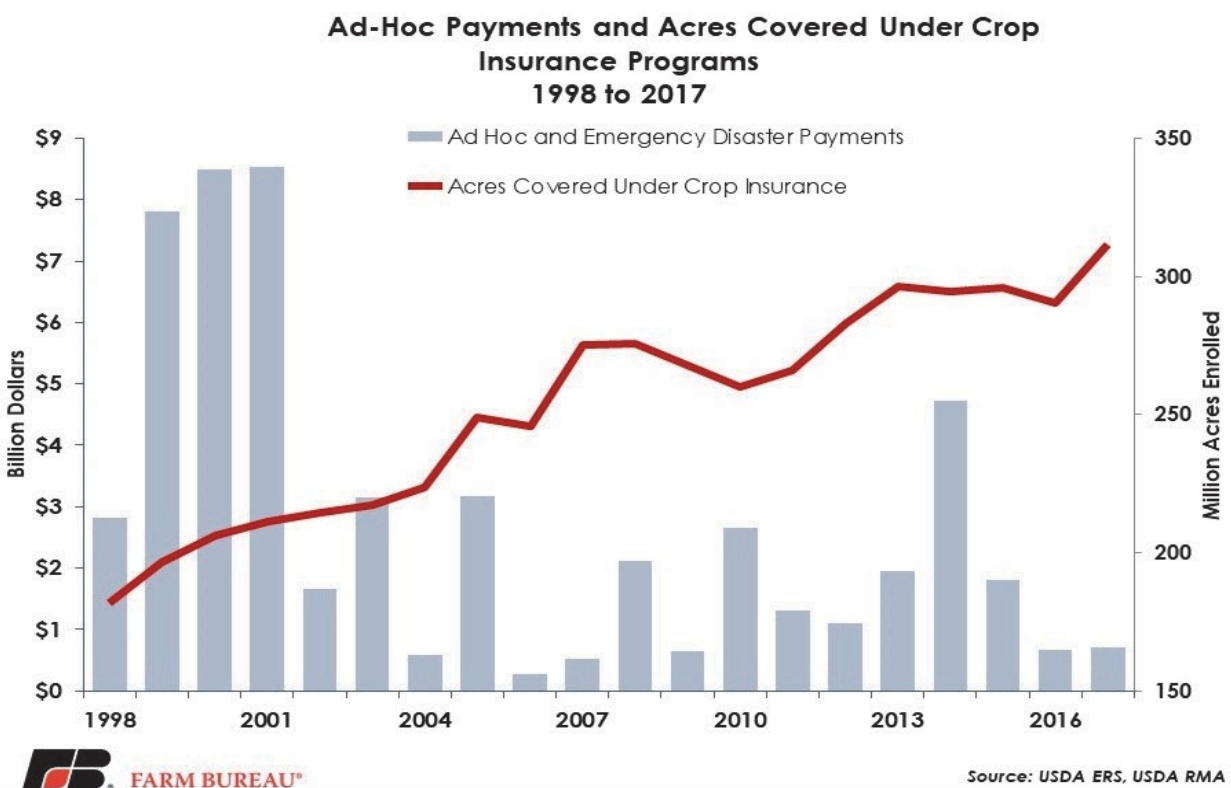
³² Congressional Budget Office, Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program, page 18, December 2017. <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53375-federalcropinsuranceprogram.pdf>

significantly higher crop insurance claim payments, which suggests that greater participation in the crop insurance program can reduce Congress’s use of supplemental assistance.”³³

Former Director of the Risk Management Agency, Kenneth Ackerman, contends that, “Data does exist to compare the two approaches. All that’s required to access it, is memory.”

Ackerman says that the ad hoc bills have essentially been abandoned by Congress since 2011 and even the special emergency bill passed by the House in 2017 in the wake of Hurricanes Harvey, Irma, and Maria linked the aid to crop insurance participation.³⁴

The view that subsidizing participation in crop insurance is a better value than congressional disaster relief on an ad hoc basis is supported strongly by research from the Farm Bureau.³⁵



Obviously, the chart does not attempt to show causation but the correlation between greater participation in crop insurance and fewer legislative efforts to provide supplemental assistance to farmers after weather-related disasters is clear. More data will come with time and resolve the

³³ Ibid at page 11

³⁴ Ackerman, Kenneth D., Top Priority for the 2018 Farm Bill: Protect Federal Crop Insurance, OFW Law, January 9, 2018, <https://www.ofwlaw.com/2018/01/09/top-priority-2018-farm-bill-protect-federal-crop-insurance/>

³⁵ Newton, John, PhD, Crop Insurance Reduces the Need for Ad Hoc Disaster Payments, Farm Bureau, March 13, 2018, <https://www.fb.org/market-intel/crop-insurance-reduces-the-need-for-ad-hoc-disaster-payments>

issue of crop insurance cost versus ad hoc legislation by Congress but available evidence strongly appears to support the greater use of crop insurance.

Even assuming, arguendo, that ad hoc relief is no more expensive than crop insurance, crop insurance nonetheless provides a better way to assist farmers in managing their risk. Using private sector insurance companies to sell the coverage, crop insurance places farming on a more dependable, business-like basis where claims are paid in a timely manner based on contracts to which the parties have agreed in advance. Farmers, who run their operation on a good business-like basis, keep good production records, use precision agriculture and other best practices, and use risk management tools such as forward contracting and futures options to manage their risks enjoy better guarantees. In the alternative, ad hoc legislation is a blunt instrument, which, again, Congress has not failed to provide in the absence of crop insurance, and it involves a great deal of uncertainty.³⁶

Former RMA Administrator Kenneth Ackerman has written that the FCIC has incorporated conservation compliance into crop insurance and reduced improper payment levels to historic lows. Mis-payments and program abuses plagued earlier ad hoc relief administration.³⁷

A further benefit that crop insurance appears to offer that ad hoc legislation does not is the use of claims adjusters to assess the claim. The use of insurance claims adjusters not only means timely payment for the farmer but it means the indemnity payment is directly tied to the loss rather than a one-size- fits- all payment that comes with the distribution of ad hoc funds.³⁸

While the government subsidizes crop insurance paying approximately 62% of the cost of the premiums, farmers, nonetheless, share the cost by paying the remaining 38% of the premium, which requires them to make serious choices about managing their own risks.³⁹ This arrangement is clearly preferable to ad hoc legislation that puts 100% of the cost on the taxpayer.

For over two decades federal policymakers of both parties have demonstrated the political will to reshape agriculture policy and place it on a more dependable business-like basis incorporating more incentives for farm risk management. Given that policy position, crop insurance is likely to be less economically distortionary than other agriculture support measures.⁴⁰

³⁶ Interview with Hon. Kenneth Ackerman, former Administrator of the Risk Management Agency and Manager of the FCIC Crop Insurance Corporation. April 12, 2018

³⁷ Ackerman, Kenneth D., Top Priority for the 2018 Farm Bill: Protect Federal Crop Insurance, OFW Law, January 9, 2018, <https://www.ofwlaw.com/2018/01/09/top-priority-2018-farm-bill-protect-federal-crop-insurance/>

³⁸ Newton, John, PhD, Crop Insurance Reduces the Need for Ad Hoc Disaster Payments, Farm Bureau, March 13, 2018, <https://www.fb.org/market-intel/crop-insurance-reduces-the-need-for-ad-hoc-disaster-payments>

³⁹ Shields, Dennis, A., Congressional Research Service, Crop Insurance Provisions in the 2014 Farm Bill, accessed via <http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R43494.pdf>

⁴⁰ Ramsey, Austin F., North Carolina State University and Santeramo, Fabio G, University of Foggia, Italy.” Crop Insurance in the European Union: Lessons and Caution from the United States”, January 1, 2017, Munich Personal Repository Economic Archive, University of Munich, Germany, https://mpra.ub.uni-muenchen.de/79164/1/MPRA_paper_79164.pdf

Federal policymakers also recognize the value of crop insurance to the rural economy. In his testimony before the House Agriculture Committee on the state of the rural economy, Secretary of Agriculture Sonny Perdue said:

The U.S. farm sector has faced declining prices and farm incomes following the near record levels reached in 2014, leaving some producers more vulnerable to the production disruptions posed by natural disasters. Net farm income has fallen nearly 50 percent from its peak in 2013, as most commodity prices have fallen over the past 4 years while global stock levels have rebounded with several years of record production. We project continuing low commodity prices and trade challenges in the face of large global supplies and a relatively strong dollar for the coming year. As a result, many farmers will continue to face tight bottom lines, even negative returns in some cases.

The Secretary further stated, “With the help of farm disaster programs and crop insurance, many producers are recovering from some difficult times following a series of disastrous droughts, wildfires, and hurricanes in many parts of the country.”⁴¹

The Federal Reserve Banks of Kansas City and Minneapolis also have found that it has been rough sledding for the agricultural economy in the Heartland. The Federal Reserve Bank of Kansas City, which covers much of the Plains States, parts of Missouri, the Mountain States, and Oklahoma, forecasts that farm incomes for the first quarter of 2018 would be “downbeat” but there were signs of stabilization of farm income in 2017 and it was expected to be the same as 2016 in the aggregate.⁴²

The Federal Reserve Bank of Minneapolis, which covers Montana, the Dakotas, Minnesota, and parts of Michigan and Wisconsin, also stated that two-thirds of agriculture lenders in that Federal Reserve District reported that farm incomes fell at the end of 2017 relative to a year earlier.⁴³ In the words of Brenda Kluesner, a loan officer with of the Royal Bank of Cassville, Wisconsin, speaking on behalf of the Independent Community Bankers of America, “Some experts have said we are only one normal harvest away from dire conditions in the farm economy. Last year we dodged a bullet.”⁴⁴

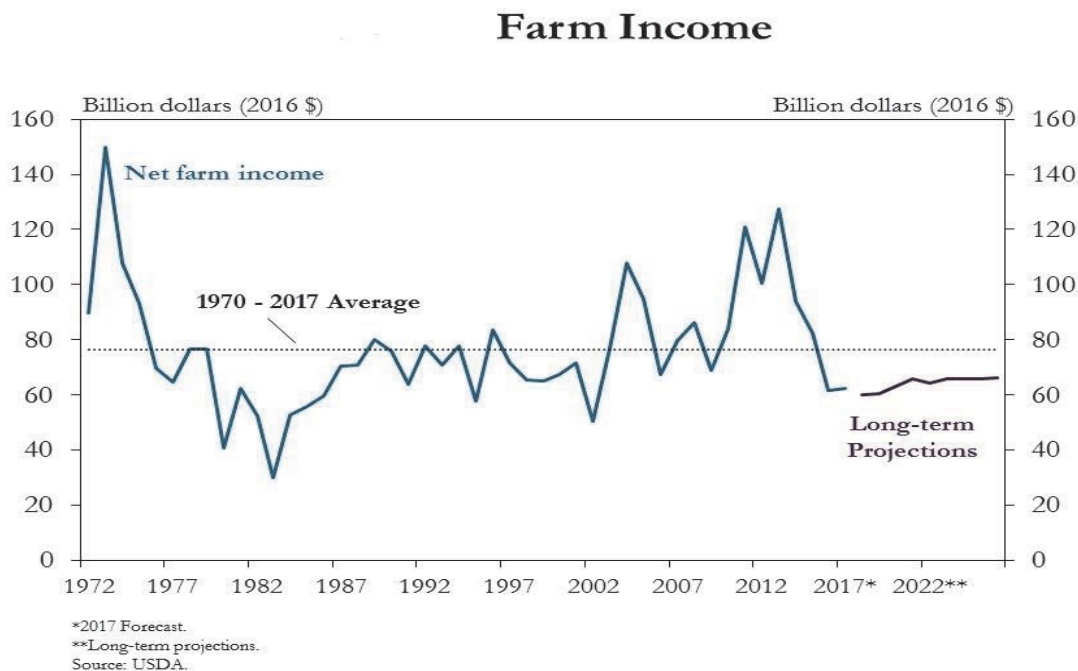
⁴¹ Hon. Sonny Perdue, Testimony before the House Agriculture Committee, Hearing on the State of the Rural Economy, February 6, 2018, https://agriculture.house.gov/uploadedfiles/2.6.18_perdue_testimony.pdf

⁴² Cowley, Cortney, “As Winter Looms, Key Risks keep Ag Outlook Cool,” KC Fed Ag Outlook, Federal Reserve Bank of Kansas City, January 8, 2018, <https://www.kansascityfed.org/research/agriculture/agoutlook/articles/key-risks-keep-ag-outlook-cool>

⁴³ Mahon, Joe, “Ag Lenders Worried About Falling Farm Incomes,” 9th Dispatch, Federal Reserve Bank of Minneapolis, March 2, 2018, <https://minneapolisfed.org/economy/ninth-dispatch/ag-lenders-worried-about-falling-farm-incomes>

⁴⁴ Kluesner, Brenda, Independent Community Bankers of America, Testimony before the Senate Agriculture, Nutrition and Forestry Committee, Hearing on Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill, July 25, 2017, https://www.agriculture.senate.gov/imo/media/doc/TESTIMONY_KLEUSNER.pdf

This chart from the Federal Reserve bank of Kansas City provides a graphic look at the point being made in the testimony before the House and Senate Agriculture Committees regarding the state of farm income now and over what would be the five-year authorization of a 2018 Farm Bill.⁴⁵



The evidence appears to indicate that the crop insurance program is both necessary and fulfilling the role for which it was designed. Farm programs, including crop insurance, are intended to provide a financial safety net for farmers and they also support the health of the rural economy more generally. Crop insurance coverage is tied directly to the agriculture producer’s ability to borrow from banks or otherwise obtain credit for equipment, land purchases, and the inputs of production such as seed, fertilizers and fungicides. The program is vital to the ability of farmers to repay their loans which has direct and indirect impacts on the rest of the rural economy.⁴⁶

Further underlining the key role crop insurance plays in the economic health not only of farmers but also in their communities and their states are the results of an important regional study conducted in the aftermath of the 2012 drought. That drought devastated agriculture in multiple states in the Great Plains and Upper Midwest. Economists Brad Lubben and Eric Thompson of the University of Nebraska-Lincoln, examined the economic impact of crop insurance in Iowa,

⁴⁵ See Cowley *infra*. <https://www.kansascityfed.org/research/agriculture/agoutlook/articles/key-risks-keep-ag-outlook-cool>

⁴⁶ See Kluesner, Testimony, *infra*, https://www.agriculture.senate.gov/imo/media/doc/TESTIMONY_KLEUSNER.pdf

Nebraska, South Dakota, and Wyoming in the aftermath of the drought and found that crop insurance indemnity payments were a vital lifeline to economies of those states. Crop insurance meant farmers were less likely to have to take on more debt to continue their operations and could continue to invest in implements and equipment.⁴⁷

Importantly, Lubben and Thompson concluded that crop insurance had an impact of nearly \$2.2 billion in the studied states and was responsible for saving more than 20,000 non-farm jobs, across both urban and rural areas of those states. The jobs saved included both those of agricultural suppliers and those in non-agricultural industries such as retail sales, health care, and other service businesses.⁴⁸

Despite the success of the federal crop insurance program, the weak state of the farm economy, and widespread support for the program, there are congressional critics who claim the program is in need of deep reforms. They say the program should be dramatically cut back by the use of means-testing for participation, capping the amount of premium support farming operations can receive, canceling revenue coverage insurance options, and reducing the gross revenue for the private insurance companies and the expense reimbursements they can receive for delivering the coverage.⁴⁹

Although the program's critics, no doubt, have good intentions, the measures they are proposing would be counter-productive at best and increase costs for the taxpayer at the worst. These proposals would be likely to turn back the clock, causing fewer farmers to participate in crop insurance, and resulting in more costly unbudgeted ad hoc legislation. Economists at Kansas State University recently reported that these proposals would be very likely to add to the administrative cost of both the insurance adjusters and the RMA and result in a raft of new regulations without saving the revenue claimed by the critics.⁵⁰ Even with the best of intentions behind such changes, they would be a costly mistake.

⁴⁷ Lubben, Brad and Thompson, Eric, "The Economic Impact of Crop Insurance Indemnity Payments in Iowa, Nebraska, South Dakota, and Wyoming", Farm Services Credit of America, March 6, 2013, https://www.fcsamerica.com/docs/pdfs/the_economic_impact_of_crop_insurance_indemnity_payments_03_07_2013.pdf

⁴⁸ See id.

⁴⁹ H.R. 2332, the AFFIRM Act, 115th Congress (2017-2018), <https://www.congress.gov/bill/115th-congress/house-bill/2332/text?q=%7B%22search%22%3A%5B%22hr2332%22%5D%7D&r=1> . See also, S.1025, the AFFIRM Act, 115th Congress (2017-2018), <https://www.congress.gov/bill/115th-congress/senate-bill/1025?q=%7B%22search%22%3A%5B%22S1025%22%5D%7D&r=1>

⁵⁰ Taylor, Mykel and Barnaby, Art, "Impact of Subsidy and Income Limits on Farm Size Measured at the State, County and Farm Level", Kansas State University Department of Agriculture Economics Extension, October 9, 2017, https://www.agmanager.info/sites/default/files/pdf/NCIS-Report_10-09-17.pdf

Conclusion

Agricultural policy dates back to the founding of the Republic and has evolved dramatically over the years. Modern federal multi-peril crop insurance represents the latest stage of that evolution and the evidence strongly suggests that crop insurance is a successful improvement in the farm safety net. While no work wrought by the hand of man is perfect, the current public-private partnership is indubitably an improvement over older programs which put the entire burden of the cost of farm policy on the taxpayer. The changes made in the program have resulted in more private sector responsibility not just for administration of the insurance but also in the development of new products. Federal crop insurance is also an improvement in the manner in which farmers manage risk.

The cost of federal crop insurance is not a driver of the growing federal budget. Those who seek to slim the federal budget would be better served to focus not on relatively small sustainable programs like federal crop insurance but on the massive programs, such as Social Security and the health care programs, which are actually driving the growth of federal spending. While crop insurance, like all federal programs, large or small, should be subject to oversight and regular scrutiny, changes made to the program over the last few years have lessened the incidence of waste and abuse with improper payments at all-time lows.

It is also evident that while crop insurance comes with a price tag for the American taxpayer, there are substantial benefits that flow from the program and justify the cost. First and foremost, crop insurance means that next year's crop will be planted even in the face of devastating weather, disease, or natural disaster. Crop insurance also helps to bring certainty to rural America which depends on the farm economy. Regardless of one's political or economic ideology, we all must eat and the United States, as National Geographic explained, is one of the few "food independent" countries in the world. America's farmers feed the U.S. and a significant portion of the rest of the world.⁵¹

Agricultural policy will, no doubt, continue to change and evolve as the country does. Today, however, federal crop insurance is crucial, and likely will continue to be, for the health of the farm economy, rural America, and the food supply upon which so much of the world relies.

⁵¹ Stone, Dan, "Is your Country Food Independent?" National Geographic, April 13, 2014, <http://onward.nationalgeographic.com/2014/04/13/is-your-country-food-independent/> See also for food maps: Fader, Marianela, et als., "Spatial decoupling of agricultural production and consumption: quantifying dependences of countries on food imports due to domestic land and water constraints", Environmental Research Letters, Vol. 8, No. 1, <http://iopscience.iop.org/article/10.1088/1748-9326/8/1/014046#erl452631s3>

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*“... a wise and frugal government, which shall
restrain men from injuring one another, shall leave
them otherwise free to regulate their own pursuits of
industry and improvement, and shall not take from
the mouth of labor the bread it has earned. This is the
sum of good government, and this is necessary to close
the circle of our felicities.”*

Thomas Jefferson, 1801

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