

Should Crop Insurance Subsidies Be Capped?

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For years, different types of eligibility and financial limits have been placed on the amount any one farmer or rancher can receive from federal farm programs. However, federal subsidies supporting crop insurance premiums, which have in-

creased dramatically in the last couple of years in conjunction with higher crop prices and program growth, have been exempt from such restrictions.

That could change if Sen. Tom Coburn, R-Okla., is successful in offering an amendment during the Senate farm bill debate that mirrors a March 2012 Government Accountability Office (GAO) report he requested. Coburn has not yet specified what he might offer if the Senate Ag Committee's farm bill hits the floor in June, as expected. However, he asked GAO to look at the implications of applying a \$40,000 limit the same level as currently applied to direct payments to the amount a farmer receives from premium subsidies.

The nearly 900,000 farmers participating in the crop insurance program received premium subsidies of \$4.7 billion in 2010 and \$7.4 billion in 2011, according to GAO.

Analyzing RMA data with a potential \$40,000 cap, GAO found "significant potential saving" for the federal government and taxpayers, in general up to \$358 million for 2010 and \$1 billion for 2011. And the watchdog agency concluded that the proposed limits would primarily affect a small percentage of the nation's largest farms, representing 3.9 percent of the farmers participating in the crop insurance program in 2011 and 32.6 percent of the premium subsidies.

For example, GAO pointed out that, in 2011, 53 farmers received more than \$500,000 in premium subsidies. The largest recipient was a corporation that insured nursery crops across three counties in one state, for a total of about \$2.2 million in premium subsidies. In addition, the administrative expense subsidies that the government spent on behalf of this corporation totaled about \$816,000.

However, some suggest that a \$40,000 cap on subsidies would impact thousands more farmers than the GAO report suggests.

"The average farmer is paying \$18.28 per acre for buyup coverage. That means the average subsidy per acre for all levels of buyup coverage is \$29.06," explains Kansas State Ag Economist Art Barnaby. "If farmers were to maintain their current level of coverage, on average, it would only require 1,377 acres of owned and cash rented acres to hit the limit.

The average subsidy for CAT insured farmers is \$15.04 per acre, so they will hit the limit with 2,660 acres based on 2011 premium costs set by the Risk Management Agency (RMA), he added.

Nebraska crop insurance agent and farmer Ruth Gerdes pointed out during a House Agriculture Subcommittee meeting last week that

farmers of all sizes have the potential to be adversely impacted by a \$40,000 limit. For example, she cited a Nebraska farm that would max out (under a potential \$40,000 cap) at 568 acres, due to the combination of levels of risk. If the same farm included all high-risk ground, it would max out at about 300 acres, Gerdes said.

For high-value specialty crops, a \$40,000 limit could kick in on farms as small as 50 acres, according to a recent analysis by Dan Carothers, Personal Ag Management in Bakersfield, Calif. (See table.)

In response to the GAO report, USDA officials pointed out that a \$40,000 subsidy limit would have a "disproportionate impact" on states, like Arizona and Hawaii, with high-value specialty crops and states with higher risk crops such as North Dakota, South Carolina, Utah and Texas, but that virtually every state would be impacted on at least some crops. USDA also pointed to a multitude of problems associated with implementing any type of subsidy cap because an in-

Crop	Level of Coverage	Acres	Total Premium	Producer Premium	Federal Subsidy
Almonds	75%	248	\$72,769	\$32,746	\$40,023
Grapes	75%	52	\$72,771	\$32,747	\$40,024
Cherries	75%	58	\$72,840	\$32,778	\$40,062
Prunes	75%	100	\$72,757	\$32,741	\$40,016
Navel Oranges	75%	162	\$74,047	\$32,871	\$40,176
Table Grapes	75%	99	\$73,093	\$32,892	\$40,201
Raisins	75%	219	\$72,961	\$32,832	\$40,129
Avocados	75%	81	\$73,607	\$33,123	\$40,484
ELS Cotton	75%	510	\$73,182	\$32,932	\$40,250

dividual farming entity may have commodities with different final planting dates, premium billing dates, and insurance periods.

"Even knowing the full amount of premium for any single entity at a given point in time in order to administer a 'subsidy' limit may prove impractical to track and administer in a fair and equitable manner," USDA wrote, while noting that working with a producer who insures both crops and livestock would be especially problematic.

The agency also suggested that crop insurance subsidy limits could have a chilling effect on agricultural lenders' ability to make farm operating loans because "the amount and impact of a limit will never be known until the crop or commodity is planted and insured and premium determinations are made."

Others point out that GAO's estimate of cost savings ignores the fact that, increased enrollment in crop insurance led to significant reductions in ad hoc disaster demands every year. From 2001-2007, Congress approved \$7 billion in three separate ad hoc disaster funds for farmers.

"Payment and subsidy limits make good politics but poor economics," Barnaby points out.

"These limits never save the money expected and cause farmers to create new entities to avoid the limits. The limits will also shift more farmers to crop share rents that create inefficiencies for farmers who are doing no till and crop rotations that often work better when the farmer has total control under cash rent leases. Payment limits often impact the full time efficient farmers and hurt the very group they are suppose to help," he emphasized. Δ

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