# The Search Is On For A Better Safety Net In The 2010 Farm Bill

## *Is A Basket In Your Future?*

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House Agriculture Committee Chairman Collin Peterson (D-MN) wants to craft a better safety net for crop and livestock producers, but he faces an uphill battle on several fronts – cost, structure, actuarial soundness, delivery system, and producer attitudes – just to name a few.

Still, he remains convinced that it might be possible to develop a more efficient system and perhaps even save some money in the process.

During a series of farm bill field hearings this month, Peterson talked about developing a crop insurance system that covers all crops and suggested that one of the ways to do that is to eliminate spending on catastrophic (CAT) coverage and the noninsured crop assistance program (NAP).

"We could pick up a lot of revenue by eliminating CAT coverage. It gives us extra money to fix the system," Peterson explained.

One of the "fixes" under consideration is a whole farm insurance program, covering crops as well as livestock. Payments would only be made when income falls below a county level trigger or some pre-established revenue trigger. It's a potentially vast program covering all commodities, specialty crops and thousands of livestock operations. That's why many are asking lots of questions about how this type of program would work. For example, would whole farm insurance be a budget buster?

Absolutely not, says Bruce Babcock, director of the Center for Agricultural and Rural Development at Iowa State University and one of several economists who testified on risk management before the House Agriculture Committee. In fact, he suggests that Congress could develop whole farm insurance to cover all of the basic program crops for less than the money spent on direct payments annually ($5.2 billion in fiscal 2009).

**Eggs in baskets**

Whole farm insurance policies can be cheaper because they cover a wider variety of risks, diversifying to avoid putting all of one's eggs in a single basket. Not surprisingly, Babcock published a paper, "Insuring Eggs in Baskets: Should the Government Insure Individual Risks" back in 2006, in which he, Dr. Chad Hart and Dr. Dermot Hayes document that, at coverage levels of 95 percent or lower, the fair insurance premiums for a whole farm product on a well-diversified Iowa hog farm are far lower than the fair premiums for the corn crop alone on the same farm.

The same basic "basket" concept is being applied right now in the crop insurance program. The Risk Management Agency (RMA) at the behest of corn growers, are enticing farmers to move away from optional units – essentially the same crop, insured separately, Babcock says.

"If you combine all of those separate units, you are essentially insuring a basket of different fields. And RMA is essentially giving 75-80 percent subsidies for farmers who will do that," he explains.

The RMA also offers whole farm revenue coverage in the form of Adjusted Gross Revenue (AGR) and AGR-Lite. However, only a few producers participate because the policies are expensive, complicated and require producers to share their tax records. Out of slightly over 2 million policies sold last year, only 826 were for AGR or AGR-Lite.

Babcock says he would scrap AGR and AGR-Lite because they aren't rated properly and rely on a producer's schedule F (from income tax returns).

"The most efficient way would be county-based, whole farm insurance. Farmers would register their acres with the local Farm Service Agency, which they have to do now, and then at the end of the year, they would calculate what their yield was for their county and what their price was for the first 5 months of the marketing year. That would equal the revenue for each crop. Then you would add up all of your revenue across the crops. There would be no intrusiveness. All you would have to do is certify your acres.

"Base the payment on planted or base acres," he suggests. "And then come up with whole farm revenue insurance product at the county level. If farmers wanted additional coverage, because they think yield risk is not covered by county yields, they could buy supplemental insurance.

"Then you get rid of the intrusiveness, you get rid of the overhead you have to pay through RMA administered programs. It would be easy to administer," Babcock says.

This type of program would, of course, cost more if you covered non-program crops, primarily because there is not readily available data from the National Agricultural Statistics Service (NASS). Tax records might have to be the benchmark used to certify income.

"County basis only works if you have a county yield. If you would want to cover everything else across the country, you would probably need to be more intrusive," he adds.

**Too good to be true?**

As with any new proposal, the "devil" is usually in the details. The National Crop Insurance Services President Bob Parkerson says that Professor Babcock's idea for a county-level ACRE plan has been around for several years and still leaves many conceptual and operational questions unanswered.

"One question is how to pay for the substantial additional delivery costs involved in simply giving this program to every producer. Farmers consciously make a decision to manage their risks when they choose to participate financially in crop insurance, which is in great contrast to the Professor's suggestion," points out Parkerson.

Other major issues with this area plans are that they don't protect farmers from individual losses nor do they work well particularly for farmers who do not grow conventional field crops.

"Certainly, most lenders wouldn't accept this program as adequate collateral when providing operating loans to farmers. It is also important to recognize that county-based revenue insurance (GRIP) is already available to many producers through the Federal crop insurance program. Whether an existing program, delivered through the private sector and cost-shared with producers, should become a fully subsidized program run by the government is very questionable. It is early in the 2012 Farm Bill process and this idea, like some others now surfacing, needs much more evaluation," he adds. Δ

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