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Will Savings And Logic Be Enough To Carry The Day With Congress?

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In the last two columns we have examined the proposal of the National Association of FSA County Office Employees (NASCOE) that the responsibilities for the selling and servicing of crop insurance policies be shifted away from insurance companies and into Farm Service Agency (FSA) county offices and the response of the American Association of Crop Insurers (AACI) to that proposal. Using the results of a study they funded, NASCOE contends that such a move would save the US government as much as $1.9 to $2.5 billion a year.

Over the last several decades, it has become fashionable to outsource or privatize essential public functions previously carried out by government employees. Those in favor of outsourcing assert either that private enterprise can carry out the activities more effectively, or that they can do it cheaper, or both.

It is not difficult to understand why those in the private sector make this argument; the resulting contracts are lucrative and they provide a steady source of income that is not subject to the usual ups and downs of the marketplace.

The case for privatizing government functions is also made by those who want to shrink the size of government. What is unclear is how outsourcing achieves this goal in those situations where the cost of the program remains the same or increases – all that changes is who writes the paychecks and supervises the employees. The size of the government's budget remains the same or gets even larger.

In some ways, the NASCOE proposal provides an opportunity to revisit the question of the advisability of uncritically outsourcing essential government functions to private enterprise.

It seems clear that the contention that outsourcing saves the government money does not come into play when it comes to crop insurance. According to NASCOE's Informa study, having the private sector sell and service the federal crop insurance program costs money – as much as $2.5 billion a year. Even if it costs a bundle to install the management systems and train FSA employees to handle the federal crop insurance program, over a ten year period the savings have to be significant. On the other hand, ACCI references a 1989 Arthur Anderson study that reports government costs to be higher than private industry.

If having the private sector operate the crop insurance program may or may not save the government money, then the case for not shifting the responsibility for the program to the FSA rests on the argument that the crop insurance industry provides superior service. And that is one of the arguments they make, asserting that farmers prefer the services provided by private industry over government employees. They also cite a USDA Risk Management Agency study that shows an error rate in insurance payments of just 5 percent. NASCOE counters with the argument that because FSA relies on local farmer committees, abuses of the program are easier for them to spot.

One of the arguments that ACCI makes is that NASCOE is just trying to protect FSA jobs. That being said, it is no less true that ACCI is trying to protect a stable revenue stream for crop insurance companies, insurance agents, and their employees. It is a given that both sides are trying to protect their jobs so that argument seems to be a wash, favoring neither party.

ACCI also argues that since they have already taken a $12 billion cut in federal funds over a ten year period, they should be left alone. Certainly this argument can be made if Congress pushes for additional cuts, but is less relevant as a defense against switching the operation of the crop insurance program to the FSA.

While ACCI makes the case that shifting the program to the private sector has increased farmer participation in the program, it is clear that other factors are at work as well. Certainly one of the relevant factors is the inadequacy of the levels of both the loan rate and the target price as set by Congress. In the absence of adequate support prices, bankers have been loathe to provide loans to farmers who cannot show some certainty in their ability to repay the loans. Crop insurance provides that certainly, well at least in years of high crop prices.

Another factor behind the increased participation in crop insurance is undoubtedly the unpredictability of the ad hoc disaster program.

Given the size of the potential savings and the lack of an unquestionably superior argument on the part of ACCI, it would seem reasonable to expect Congress to give the NASCOE proposal a close examination. So far the most widely reported congressional response has been "dead on arrival." Δ

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