

## PolicyPennings by Daryll E. Ray &amp; Harwood D. Schaffer

## Do opponents of crop insurance oppose farm programs in general?

The 2012 drought across a wide swath of the US corn belt has resulted in high insurance payments, both for farmers who faced a lower yields than they expected at planting and for farmers who had a modest or better crop but received payments because they took out revenue insurance with a harvest-time price option. The resulting high costs to the US government have resulted in a chorus of opponents to crop insurance.

As we listen to those voices, it is important to listen to the nuances in the arguments they make because they are not all the same.

At the one pole, we have those who are opposed to any type of crop insurance simply because they oppose all farm programs—some of them even go so far as to call for the elimination of the United States Department of Agriculture. But even among this group there are some differences. Some are opposed to farm programs on economic grounds, arguing that the free market is better at allocating resources than government policy. Others in this group simply want to shrink the size of government because they see the government as the problem.

Others oppose crop insurance and crop-specific payments to farmers because they would like to see the money that is going to crop insurance and other areas switched to an area about which they are passionate—usually the environment.

And then there are those who are OK with the current subsidized crop insurance program but want to make sure that there are no payment limitations, no conservation compliance requirements, and no planting or acreage restrictions. Most of the players are agribusiness firms and those allied with those firms. Their goal is to have all-out production all of the time and then backfill farm income with insurance payments, both when yield is low and prices are high and when yields are average to high and prices are in the tank. They want to make sure that farm programs do not interfere with their opportunity to maximize their sales all of the time.

In addition to opposing planting and acreage, most also oppose government embargoes on exports to protect domestic markets when supplies of one or more crops become severely limited. This is called *de jure* opposition because it involves a matter of law. But by opposing any storage programs they lay the markets open to *de facto* (concerning facts) embargoes. And that is exactly what happened this crop year with corn. We have had a *de facto* embargo on exports because the high price has driven most of the purchasers of US corn to other sellers.

In coming years, it will be telling to see if this *de facto* embargo turns out to drive investments in the agricultures of our international competitors in the corn market as the *de jure* embargoes did for our soybean competitors.

Because most of this rhetoric is targeted to one or more elements of the farm program, it would be easy for the general public to come to the conclusion that the farm program has no purpose other than to enrich large farmers at the expense of the rest of society.

At its most basic level, there are solid reasons why we have seen farm programs as a necessary part of our national life. In economic-speak, agriculture faces a low price elasticity of demand, a low price elasticity of price, a fixity of resources, and the inability to finely control production as other industries do.

Translated into English that means that when prices are very “high” most people do not eat significantly less food—though it does affect the poorest of the poor—and when prices are “low” they do not go from three meals a day to four—in the US a large number of us already eat too much.

At the same time, whether prices are high or low farmers plant all of their acreage to something; what farmer is going to rent ground and then tell the landlord that they are not going to grow a crop?

In other industries, excess resources are shifted to another use relatively quickly, but in agriculture there is little alternate use for a combine and if land is converted to a housing development, it cannot later be shifted back into production. The resources have fixed uses. Resources will eventually be shifted out of agricultural production after a number of years of low prices, but very little is shifted out in the short to intermediate run.

If ever there were a time that farmers wish that they could control production, it was last year. Not only could they not finely control it, they couldn't control it at all. Some were unlucky and saw their crop burn up, while others hit the jackpot with reasonable yields and extremely high prices. For the most part, when it comes to production using modern farming methods what one runs through the combine is the luck of the draw; last year farmers in much of the mid-section of the country drew a bad hand.

So yes, there are good reasons to support a farm program that is designed to compensate for these market failures.

As our regular readers know, we have criticized the current price component of the crop insurance

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program for providing generous protection when it is not needed—when prices are high—and providing little protection when it is needed—when prices are low for an extended period of years. To the extent that subsidized crop insurance is used to protect farmers against yield disasters, we support its use because in many cases it is more targeted than the traditional ad hoc disaster programs.

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