

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Environmental Working Group proposes major changes in farm program

Most of the major players in the farm bill debate this time assume that revenue insurance will be a major component of the final package. Thus a number of the specific proposals by various commodity organizations offer a wrap-around program that covers shallow losses, leaving it to revenue insurance to serve as a kind of disaster program that covers deep losses.

And in recent go-rounds, Congress has preferred to have an insurance program that can serve as a permanent disaster relief program so that they do not have to garner sufficient votes to pass an emergency disaster relief program in response to a widespread production shortfall. Likewise many farmers and bankers prefer an insurance program over emergency disaster payments because payments are predictable and are paid even in situations where the extent of damage would not be widespread enough to grab the attention of Congress.

On November 3, 2011, the Environmental Working Group (EWG) released a study by Bruce Babcock, Professor of Economics, Iowa State University, titled, “The Revenue Insurance Boondoggle: A Taxpayer-Paid Windfall for Industry” (http://static.ewg.org/pdf/Crop_Insurance.pdf) just under 3 weeks before the Congressional Super Committee’s “November 23 [2011] deadline to come up with a deficit reduction proposal” which includes farm bill baseline funding. The EWG report consists of two parts, the study by Babcock and a preface by Craig Cox, EWG Senior Vice for Agriculture and Natural Resources and Nils Bruzelius, Executive Editor, EWG.

While it serves as an introduction to the study by Babcock, the analysis in the preface is not identical to what follows in the study. To allow each part to stand on its own, we will be examining the material in the preface in this column and Babcock’s work in the one that follows.

Cox and Bruzelius begin the preface asserting that “powerful farm state legislators and agricultural industry lobbyists have moved to hijack the process of rewriting the federal farm bill and enact a new, multi-billion dollar entitlement for the largest, most profitable farming operations. Their goal is to have the 12-member committee adopt their scheme, drafted entirely behind closed doors, while shutting out everyone else with a stake in the outcome—including taxpayers and advocates for healthy food, rural revitalization, children, conservation, public health and the environment.”

In addition they argue that “at the heart of this

scheme is an expansion of the federal ‘revenue insurance’ program, an already heavily subsidized program that insures business income won’t fall below a ‘revenue guarantee’—something that would be the envy of any other industry—even as it enriches the insurers.” Using Babcock’s analysis, they assert that the recent cuts to the revenue insurance will make “little more than...a trivial dent in the windfall profits that insurance companies and agents reap from the program.”

Rather than rolling the details of the farm bill into the super committee’s deficit reduction process, Cox and Bruzelius write: “the renewal of the farm bill should be done in an open and transparent process” and then provide principles they would use in rewriting the farm bill.

Some of their proposals echo policies advocated by some of the major farm groups while others are their own. They write, “It is entirely possible to construct a true safety net that protects working farm and ranch families from crippling crop failures AND (emphasis in original) save billions of dollars that can be used to reduce the deficit and reinvest in critical conservation and food programs – a safety net for families, children and our land and water. Here’s how:

- “Eliminate direct payments, counter-cyclical payments, loan deficiency payments, ACRE (Average Crop Revenue Election) and SURE (Supplemental Revenue Assistance Payments). (Savings: \$57 billion over ten years).
- “Provide every farmer with a FREE crop insurance policy that covers yield losses of more than 30 percent; and eliminate federal premium and other subsidies for revenue-based or other crop insurance products. (Savings: \$26 billion just in premium subsidies over ten years).
- “Have the federal government take bids from insurance companies to service the policies, eliminating windfall profits and encouraging the private sector to develop and offer innovative options for farmers to increase their insurance coverage—but not at taxpayers’ expense.
- “Require producers to meet a basic standard of conservation practices in order to be eligible for publicly financed crop insurance.
- “Ensure full transparency by requiring USDA to make available information about who is getting the free policies, the taxpayer cost of providing those policies and how much farmers receive in insurance payouts.”

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They estimate that these proposals would save \$80 billion over 10 years, far more than most other proposals. With some of those savings they would:

- “Maintain funding for the Supplemental Nutrition Assistance (SNAP) and the Women, Infants and Children (WIC) programs in order meet the needs of families and children during these difficult economic times.
- “Add incentives to SNAP to make it easier for participants to afford fresh food.
- “Ensure that schools have the money they need to meet the new federal school lunch standards and make sure that school lunches provide children with fresh fruit and vegetables every day.
- “Restore cuts to critical conservation programs that protect our soil, clean up our water and preserve habitat for fish and wildlife. This should include adding \$10 billion above the current baseline of \$64 billion to restore funding for the Wetlands Reserve Program, and increasing funding for technical assistance.
- “Increase funding for programs that provide new market opportunities for sustainable and organic farmers and ranchers, create new jobs and increase

access to healthy food by strengthening the local food economy.”

While much of what they write in the preface is political in nature and subject to vigorous debate, they err in their definition of the function of a safety net. They define the safety net they are talking about as “stepping in when working farm and ranch families suffer unpredictable and potentially crippling losses caused by bad weather.” This is but one portion of the safety net that farmers have historically needed—protection in cases of weather-related disasters. The other portion of the safety net that farmers need is in response to long periods like 1998 to 2001 when crop prices remain well below the cost of production creating economic problems just as real as those caused by weather-related a crop failure.

That aside, their proposals are likely to create lively responses both for and against their positions.

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