

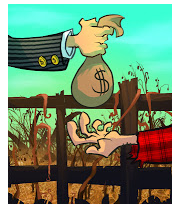
HOME (/)
ABOUT
JOURNAL (/ABOUT)
MASTHEAD (/NEW-PAGE)
PROSPECTIVE MEMBERS (/PROSPECTIVE-MEMBERS)
SUBSCRIBE (/SUBSCRIBE)
STAFF RESOURCES (/STAFF-RESOURCES)
PUBLICATIONS
PUBLICATION ARCHIVE (/PUBLICATION-ARCHIVE)
VOLUME 1 (2009) (/VOLUME-1-2008-2009)
VOLUME 2 (2010) (/VOLUME-2-2009-2010)
VOLUME 3 (2011) (/VOLUME-3-2010-2011)
VOLUME 4 (2012) (/VOLUME-4-2011-2012)
VOLUME 5 (2013) (/VOLUME-5-2012-2013)
VOLUME 6 (2014) (/VOLUME-6-2013-2014)
VOLUME 7 (2015) (/VOLUME-7-2014-2015)
VOLUME 8 (2016) (/VOLUME-8-2015-2016)
VOLUME 9 (2017) (/VOLUME-9-2016-2017)
VOLUME 10 (2018) (/VOLUME-10-2018)
SYMPOSIUM
INFORMATION (/SYMPOSIUM)
BLOG
FULL BLOG (/FULL-BLOG)
BLOG ARCHIVE (/BLOG-ARCHIVE-1)

SUBMISSIONS (/SUBMISSIONS)

August 23, 2012 (/full-blog/2012/08/crop-insurance-agricultural-equivalent_23.html)

Crop insurance: The agricultural equivalent of the mortgage crisis? (/full-blog/2012/08/crop-insurance-agricultural-equivalent_23.html)

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By: Jocelyn Arlinghaus, Staff Member

Every five years, Congress promises to improve the agriculture industry in the United States through a new farm bill. The bill addresses competing challenges facing the agriculture industry, including devastating

losses to American farmers as a result of crop failures and increasing government subsidies in order to keep these farmers in business, costing taxpayers millions of dollars in the process.[1] The Senate is currently considering the Agriculture Reform, Food, and Jobs Act of 2012, which proposes a series of resolutions to these ongoing problems.[2] Through the act, Congress seeks to expand the crop insurance system by creating a \$3 billion per year subsidy that would cover any farm losses before crop insurance policies kick in, effectively “bailing out” both farmers and insurance companies. This will replace the existing direct payment system which paid out over \$5 billion a year as part of a direct subsidy to farmers regardless of whether they actually planted crops.[3] While the possibility of cutting \$23 billion in spending over the next ten years is enticing, critics argue that this system only creates new problems for the agricultural economy and will have a negative impact on the environment.[4]

Congress introduced federal crop insurance in the 1930s in an attempt to recover the agriculture industry after the Dust Bowl devastated Midwestern prairielands.[5] The government provided small subsidies that covered farmers’ losses due to circumstances beyond their control such as bad weather or pests.[6] Through this program, farmers can purchase insurance coverage against poor yields and the decline in crop prices.[7] The government now spends roughly \$7 billion a year to cover two-thirds of farmers’ insurance premiums. [8] Congress now proposes an increase in the program to \$9 billion a year in coverage and suggests a “shallow loss” provision that will cover losses to a minimum of 10%, effectively subsidizing farmers’ insurance deductibles.[9]

While government subsidies appear to be a necessity for farmers whose profits hinge upon the weather and a volatile market,[10] this proposal has sparked recent controversy among industry experts. Critics argue that the new crop insurance program will be just as costly to taxpayers as the direct payment program because the government will be effectively subsidizing the private insurance companies that provide coverage to farmers. [11] Further, critics suggest that the program will create serious environmental risks. Because the guarantee of a large insurance subsidy reduces the risk of profit-loss, farmers are encouraged to plant “fence to fence” and expand onto land that is unsuitable for farming in order to make more money.[12] Enticing farmers to plant on unsuitable land where failure is almost certain will cost the government and taxpayers millions when these crops fail to produce.[13] Millions of acres in the Midwest that were once used for hunting purposes and home to many species of wildlife will be turned into corn, soybean, and wheat fields.[14] The bill does not include the conservation measures that were in place under the direct payment program, so farmers are free to take extreme risks knowing that if they are not successful the government will compensate them for their losses.[15] It is a win-win situation for farmers at the expense of taxpayers and the environment. Indeed, it is difficult to conceptualize why a big business American farmer is granted a “subsidy” during hard times while similar aid would be labeled as a “bailout” in a different industry. Additionally, some farmers have complained that while this program will help corn producers who are more affected by natural disasters, it will do little to help rice and peanut farmers that do not encounter “shallow losses.”[16]

Because the negative impact of increasing crop insurance subsidies cannot be ignored, Congress should consider a less extreme version of the program in which a base level of coverage will be offered to farmers free of cost, with the option to purchase additional coverage out of their own pocket.[17] This places more responsibility on farmers and less of a burden on the government to provide a bailout for poor business decisions. Without such large subsidies, farmers are still have other remedies. They can choose to purchase less insurance or farm more conservatively by planting later in the spring when the weather is less volatile. [18] Allowing an increase to crop insurance subsidies would be a tragedy for government spending, taxpayers, and American prairielands. ()

[1] See Ron Nixon, *Crop Insurance Proposal Could Cost U.S. Billion*, THE NEW YORK TIMES (June 6, 2012) <http://www.nytimes.com/2012/06/07/us/politics/bill-to-expand-crop-insurance-poses-risks.html?ref=farmbillus>

[2] Agriculture Reform, Food, and Jobs Act of 2012, S. 3240, 112th Cong. (2012).

[3] Nixon, *supra* note 1.

[4] *Id.*

[5] Stett Holbrook, *Crop insurance a boon to farmers--and insurers, too*, THE BOTTOM LINE ON MSNBC http://bottomline.msnbc.msn.com/_news/2012/06/18/12240997-crop-insurance-a-boon-to-farmers-and-insurers-too?lite (http://bottomline.msnbc.msn.com/_news/2012/06/18/12240997-crop-insurance-a-boon-to-farmers-and-insurers-too?lite) (last visited June 19, 2012).

[6] *Id.*

[7] Nixon, *supra* note 1.

[8] *Id.*

[9] Holbrook, *supra* note 5.

[10] Nixon, *supra* note 1.

[11] Holbrook, *supra* note 5.

[12] Nixon, *supra* note 1.

[13] *Id.*

[14] *Id.*

[15] *See* Holbrook, *supra* note 5.

[16] Melissa Miller, *Proposed farm bill would end direct payments*, SOUTHEAST MISSOURIAN, (June 15, 2012) <http://www.semissourian.com/story/1860520.html> (<http://www.semissourian.com/story/1860520.html>)

[17] Holbrook, *supra* note 5.


[18] *Id.*

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