Crop insurance becomes big subsidy for farmers

By Dan Charles, NPR

Say the words “crop insurance,” and most people start to yawn. For years, few non-farmers knew much about these government-subsidized insurance policies, and even fewer found any fault with them. After all, who could criticize a safety net for farmers that saves them from getting wiped out by floods or drought?

But consider this: According to a news analysis, crop insurance allowed corn and soybean farmers not only to survive last year’s epic drought, it allowed them to make bigger profits than they would have in a normal year. A big chunk of those profits were provided through taxpayer subsidies. In fact, crop insurance has grown into the largest subsidy that the government provides to America’s farmers.

Taxpayers foot bill of farm insurance. Photo/NPR

Economist Bruce Babcock, from Iowa State University, carried out the new analysis. It was commissioned by the Environmental Working Group, a long-time critic of agricultural subsidies.

“We really saw, in 2012, how the crop insurance program performs," says Babcock. "It kind of reveals itself."

What's revealed, first of all, is the fact that the vast majority of farmers are signing up for a version of insurance that Babcock calls the "Cadillac." This kind of policy covers two different kinds of losses: Lower harvests, or lower prices.

Here's why it's Cadillac insurance, and why it ends up costing taxpayers billions of dollars. Last year, farmers got a poor harvest. At the same time, because corn and soybeans were in short supply, prices soared, which benefited farmers greatly. The insurance, however, paid farmers for the lost yield — but paid them at the higher, post-drought market price. Essentially, farmers reaped the drought's benefits, yet were protected form its harm.

"Those farmers made more money than they anticipated making when they planted the crop. That's clear," says Babcock.

In all, payouts added up to $16 billion last year, a new record, most of which was paid by taxpayers. According to Babcock, if farmers had instead signed up for another kind of crop insurance, which simply pays a farmer for revenue that's lost because of crop failure, payouts would have come to just $6 billion.

According to Babcock, the government should limit its subsidies to this simpler, "plain-Jane" insurance policy, which is a perfectly adequate safety net for farmers. Under the current system, he says, government subsidies make "Cadillac" insurance artificially cheap, dramatically driving up the cost of the program. (On average, the premiums that farmers pay cover only about 40 percent of the cost of crop insurance.) "It just seems to me that a lot of money could be saved," he says.

Congress is once again starting work on a new version of the Farm Bill, which sets the rules for crop insurance. It tried to pass a new bill last year, but failed.