CROP INSURANCE AND DISASTER PAYMENTS

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WHAT ARE THE ISSUES?

The Agriculture and Consumer Protection Act of 1973 initiated a new program to protect producers who have wheat, feed grain, or upland cotton allotments against income losses due to prevented planting or low yields for the period 1974-77. In the first two years (1974-75) of the Disaster Payment Program (DPP) administered by the USDA's Agricultural Stabilization and Conservation Service (ASCS), payments totaled $840 million. Without legislative action, the DPP and associated benefits will expire after the 1977 crop. The immediate issue is whether Congress should extend the DPP intact or in some modified form.

This question is only part of the broader issue of the proper role of Government in offering risk protection against natural hazards faced by farmers. The Federal Government also has programs other than the DPP which offer risk protection to farmers, as does the private insurance industry. The Federal Crop Insurance Corporation (FCIC) is a federally chartered agency which has offered insurance to farmers since 1939. Even considering all 22 crops insured by FCIC, the DPP is still a much larger program in terms of participation and payments or indemnities to farmers. In comparison, FCIC paid out a total of $126 million in 1974 and 1975.

Other disaster protection is also available through such programs as the Farmer's Home Administration (FmHA), but most of this relief is of an emergency nature and is restricted by the requirement that a disaster be declared by the President, a Governor, or other official. Such federal programs supplement the private insurance industry which has traditionally offered protection against hail and fire, but which has never successfully offered multiple-peril insurance on a large scale.

Within the broad issue of the proper role of the Government in providing risk protection to farmers, specific questions relate to the type of programs that should be available. Should both the DPP and Federal Crop Insurance (FCI) continue for the program crops? Should the Government in some way encourage the private insurance industry to provide multiple-peril crop insurance? Should provisions of any of the programs be revised? Should the DPP be expanded to include other crops such as soybeans, oats, or tobacco? Should the overlap among these Government programs be eliminated? How should the programs be structured – what should the payment rates be, who should pay the cost of premiums, and what losses should be covered?

WHY IS THIS AN ISSUE?

Farmer's increased need for disaster protection as production costs increase, apparent inadequacies in the current programs to meet these needs, apparent abuses or inequities in the present programs, and the high Government expenditures since 1974 make disaster protection an issue. The DPP was adopted with little consideration of how the specific provisions would work and with little knowledge of its likely costs to the Government. It has proven to be costly and several weaknesses in its provisions have become apparent from experience gained during the first two years of operation.

Specific problems with the current DPP are numerous. Many of the provisions would not be offered in a sound insurance program.

1. The payment rate of the larger of either one-third of the target price or the established deficiency payment rate is considerably below costs of production.

2. While farm allotments and bases have not been used for production control since 1973, they are still preserved by ASCS as a basis for the DPP. Benefits are based upon the short fall between the actual production and the farm's base production (allotment times the ASCS established yield) making producers without allotments ineligible for benefits. Those who overplant their allotments face reduced per acre benefits or no benefits.

3. The determination of eligibility for benefits is based upon two-thirds of the established yield, but once a farm is eligible, payments are based upon the entire short fall between established allotment production and actual production. As a result, one bushel or pound of

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production above the critical eligibility level can make a producer ineligible for a large payment.

4. The provision which allows producers to receive payments if prevented from planting is difficult to administer and subject to abuse.

5. Cotton receives special treatment under the prevented planting option since benefits can be received even if another crop is planted later. If a producer plants a substitute crop for wheat or feed grains his payment is reduced proportional to production from the substitute crop.

On the positive side, the DPP has been beneficial and may have kept numerous farmers out of bankruptcy during unfavorable crop conditions. Many farmers like the program because it offers disaster protection without a premium cost. Farmers in high risk areas where FCI is unavailable now have protection against natural crop hazards – with the increased specialization of farms and higher costs of production, this protection is important as a means to guard against loss of income.

The DPP is in a sense in competition with the FCIC. Farmers eligible for the DPP may be less inclined to purchase FCI than if the DPP were not available. However, not all producers are able to purchase FCI since the enabling legislation requires FCIC to operate a sound program with authority to refuse insurance where the risks are excessive.

As a result, FCI is not offered in many counties or even in areas or to producers within counties where the risks of crop failure are high. Even where available, FCI has a low level of participation with only about 17 percent of the eligible acreage of wheat, corn, barley, grain sorghum and cotton insured in 1976.

The private insurance industry has misgivings about both the FCI and the DPP because such programs may hurt their present or potential sales. Private industry has long been interested in providing multiple-peril coverage of crops and has attempted to do so in the past. However, these efforts have been unsuccessful because of the unavailability of reinsurance to spread the risks over time, lack of data on which to base rates, and having to compete with the FCIC which receives a Treasury appropriation to cover administrative and operating expenses.

Policy Alternatives

A wide range of options may be considered for adoption through new legislation.

1. Renew the DPP without modifying any of its provisions in the 1973 Act.

2. Allow DPP to expire and allow the FCIC to continue operating under its present charge. Disaster protection would then be the same as before the 1973 Act was passed.

3. Encourage the private insurance industry to offer multiple-peril crop insurance. This might be accomplished by offering FCIC reinsurance to help spread the risks over time.

4. Terminate the DPP and expand the FCIC program. Under this option, FCI coverage would be made nationwide for the program crops and the now minimal effort at selling and promoting FCI would be expanded. Government premium subsidy could be used to increase the participation in the program.

5. Amend the DPP provisions to make the protection more in line with the needs of producers and to remove some of its unsound provisions. This includes the unequal treatment between cotton and the other crops with respect to the prevented planting provisions and the problems associated with making a payment of at least one-third of the maximum possible payment on the basis of a threshold farm yield.

6. Eliminate the current overlap between programs. This could be accomplished in a number of ways such as requiring the purchase of FCI if available in order to be eligible for disaster payments or not offering the DPP to producers who were eligible to purchase FCI.

7. Expand the emergency loan program offered by FmHA and the disaster assistance offered by other agencies to reach more producers.

Consequences

The results of any action taken by the Congress will affect the extent of coverage of natural disasters that are faced by farmers, the rate at which they are indemnified, and the costs of this protection to taxpayers. The ability of farmers to purchase inputs and obtain credit in years of low crop yield are substantially dependent upon the level of disaster protection provided.

To the extent that benefits are capitalized in the land values, any governmental role in financing the program could affect the prices paid and received for land. Farm income protection is important not only to farmers but also to their communities.

Beyond the farm gate, the impact of farmer disaster protection on consumers is difficult to evaluate. However, there is evidence that reducing the risks associated with crop production would increase the supplies of food and reduce food costs in the long run.

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