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R Street policy statement on crop insurance reform

As Congress returns for a second attempt at crafting fiscally responsible food and farm policy, it should ensure that basic limitations to taxpayer liability are applied to federally subsidized crop insurance.

Though direct payments have symbolized the most absurd aspect of the federal government's expensive and misguided farm policy, they have historically been tied to smart provisions that shield taxpayers, including transparency and "conservation compliance" requirements. Unfortunately, while last year's House and Senate farm bills expanded already over-generous crop insurance subsidy schemes, they both failed to include such basic provisions.

As Congress works to achieve savings in agriculture policy this year, it should ensure that five common sense limitations are applied to make federally subsidized crop insurance more accountable to taxpayers.

- **Accountability**: A responsible farm bill must tie conservation standards to any agricultural subsidy programs, including crop insurance. These standards reduce current and future costs for taxpayers by ensuring that marginal or environmentally sensitive lands aren't broken in at taxpayer expense, which would create dependency on handouts and result in more insurance subsidy payouts. An amendment from Sen. Saxby Chambliss, R-Ga., to re-link these so-called "conservation compliance" provisions to crop insurance premium subsidies passed on a bipartisan vote last year.

- **Payment limits**: Congress should place a cap on the total amount any individual can receive in crop insurance premium subsidies each year. An amendment from Sens. Pat Toomey, R-Pa., and Jeanne Shaheen, D-N.H., last year suggested a modest cap of $40,000 per individual, which would save $5.2 billion over ten years. Further limiting subsidies to the still-generous levels offered in the Agriculture Risk Protection Act of 2000, as Sen. Jeff Flake, R-Ariz., and Rep. John Duncan, R-Tenn., have proposed in their Crop Insurance Subsidy Reduction Act (S. 446/H.R. 943), could yield an additional $40 billion in savings.

- **Means testing**: Legislators should also restrict premium subsidies for high-income farm owners. Agriculture subsidies are intended to provide a basic safety net, not a handout to the wealthy and successful. Sens. Tom Coburn, R-Okla., and Richard Durbin, D-Ill., passed a modest amendment last year to reduce premium subsidies by 15 percent for farm businesses with adjusted gross incomes above $750,000, which would save taxpayers $1.2 billion over ten years. A more aggressive effort by Sen. Rand Paul, R-Ky., to bar subsidies to those with incomes above $250,000 sadly failed, despite the fact that it would have affected just nine percent of farmers, who combined to receive nearly one-third of crop insurance subsidy benefits.

- **Transparency**: Lawmakers should require full transparency, including the names of recipients and amounts received, for all premium subsidy payments. This important information about the program's outlays already is available for direct payments, but is sadly lacking in the expanded crop insurance provisions expected in the next farm bill. Last year, Rep. Jackie Speier, D-Calif., introduced H.R. 6270, the Crop Insurance Subsidy Transparency Act, to subject crop insurance to the same transparency requirements applied to direct payments today.

- **Elimination of industry subsidies**: Congress must also put an end to duplicative subsidies for crop insurance companies that are over and above the incredibly generous supports given to crop insurance policyholders. Agricultural economist Vincent Smith estimated that between 2005 and 2009, insurance providers received an average of $1.44 from the taxpayer for every $1 of subsidy received by farmers. These payments, which averaged nearly $2.7 billion per year over that time period, are wasteful and unnecessary.

Though many other efforts to trim the cost of agriculture programs are necessary, any credible reform to crop insurance must contain these five policies to make the program more limited and accountable.