

The Intersection of Crop Insurance and Conservation Practices:

Status Quo:

Maintaining The Effectiveness of Both

Farm Foundation Forum

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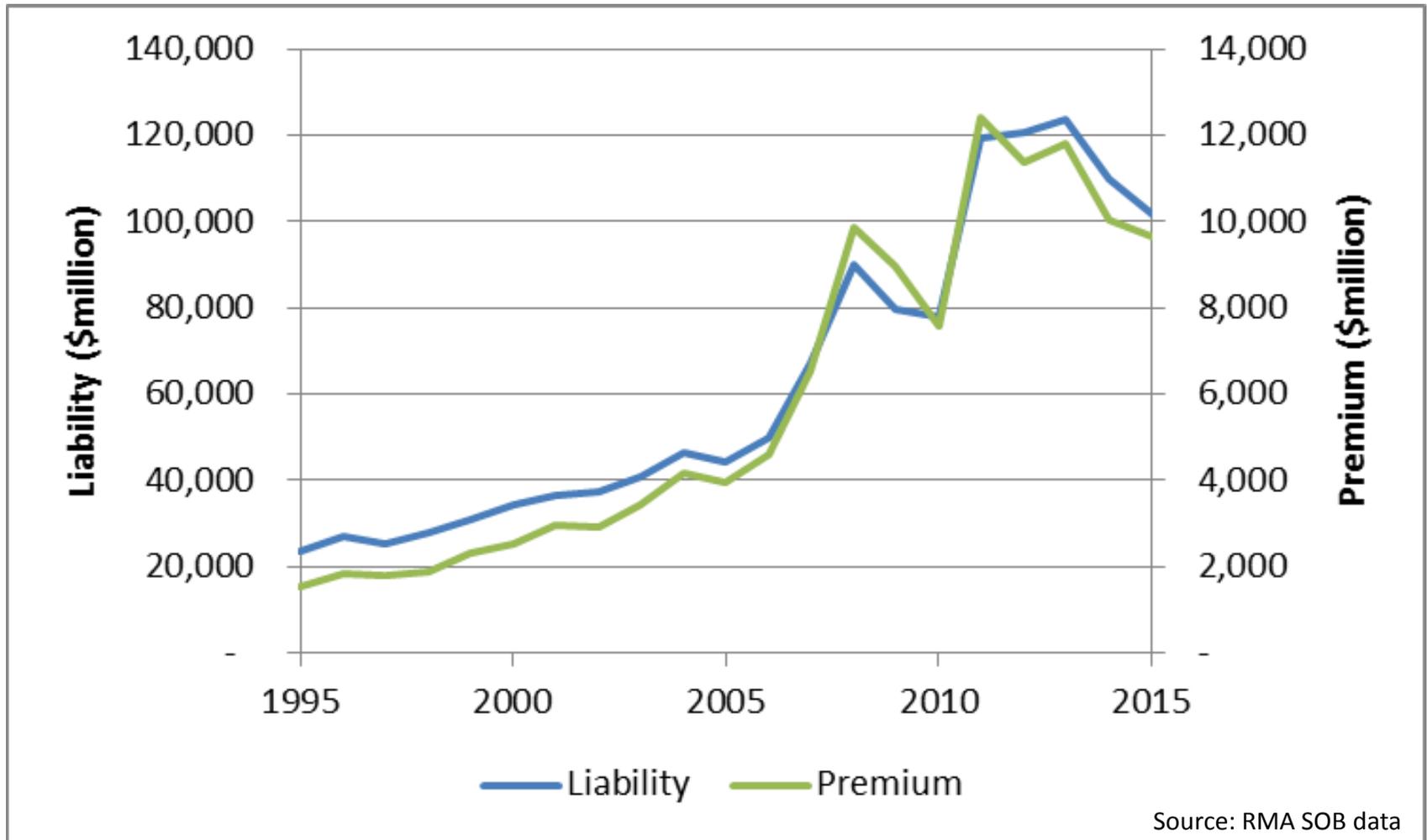
Outline

- Brief Context and level-setting of “status quo” terms
- “Fighting over Inheritance with your kids” -- and Other Uneasy Coalitions
 - Implications for Crop Insurance goals
 - Implications for Conservation goals
- Conversation starters.....
- Discussion

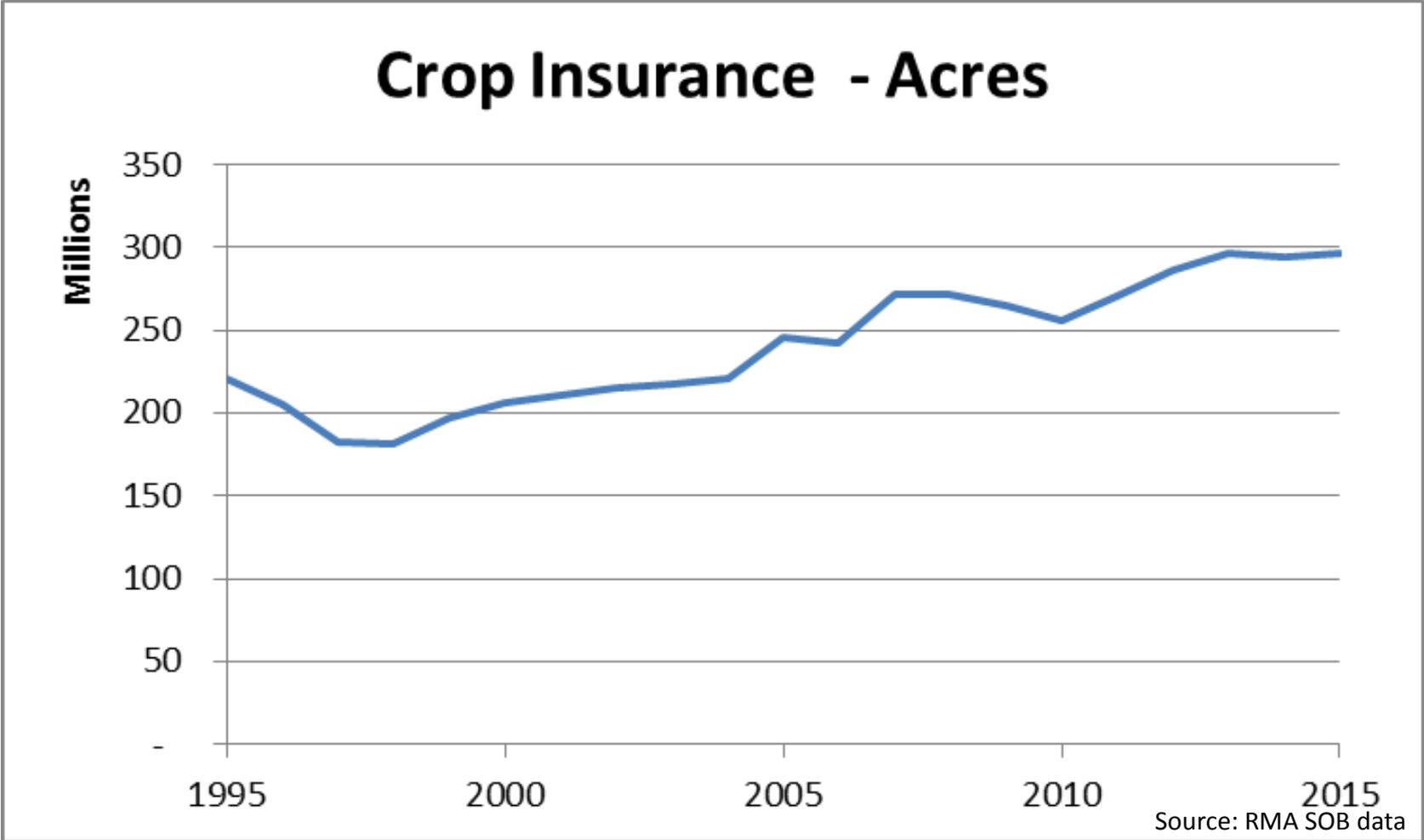
Status Quo – some important definitions

- Maintaining program capacity of FCIC programs
 - 200+ crops/policies
 - 80-90% coverage in many major commodities
- Maintaining goal for actuarial accuracy/equity
- Limit pressure for *ad hoc* disaster relief
- Existing conservation provisions within current program linked to **premium assistance** eligibility
 - Highly Erodible Land Conservation Compliance
 - Wetlands Conservation Compliance
- **NOT:** effort to eliminate good practice provisions nor to encourage production in non-viable locations

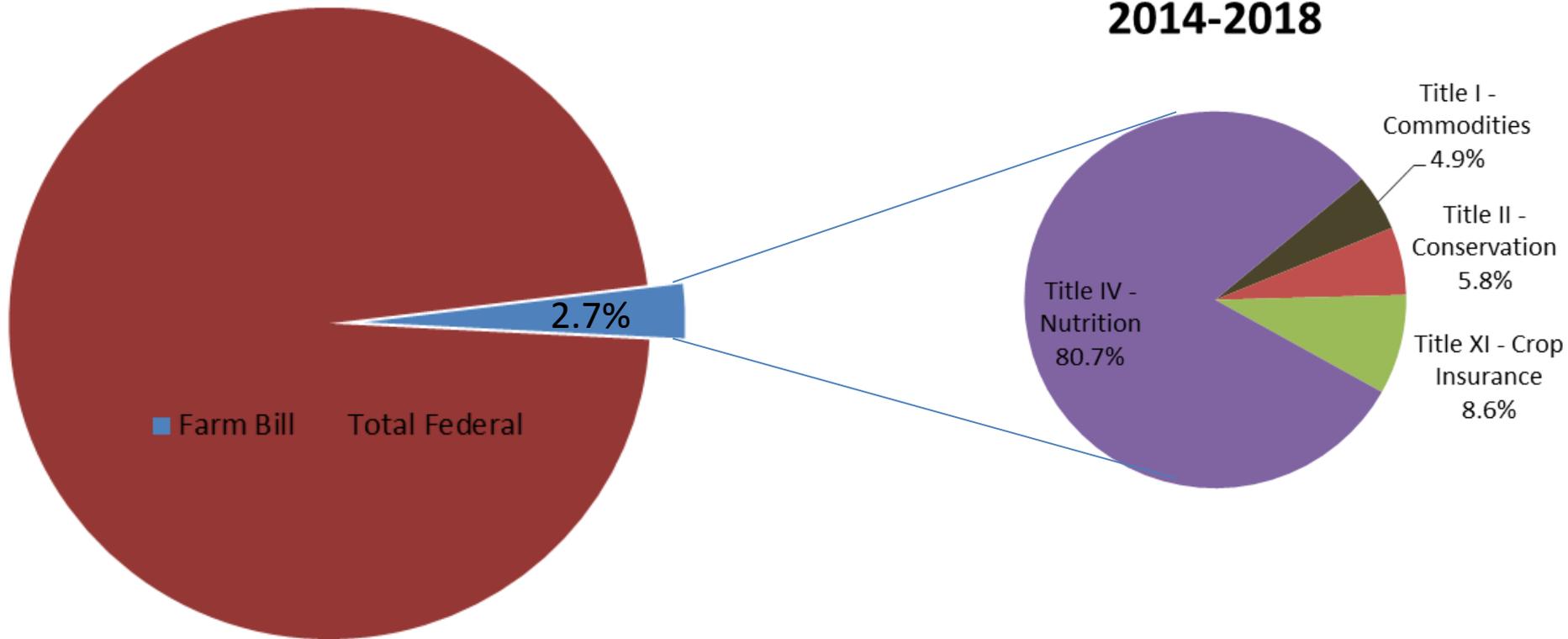
Crop Insurance: Commodity price and participation driven



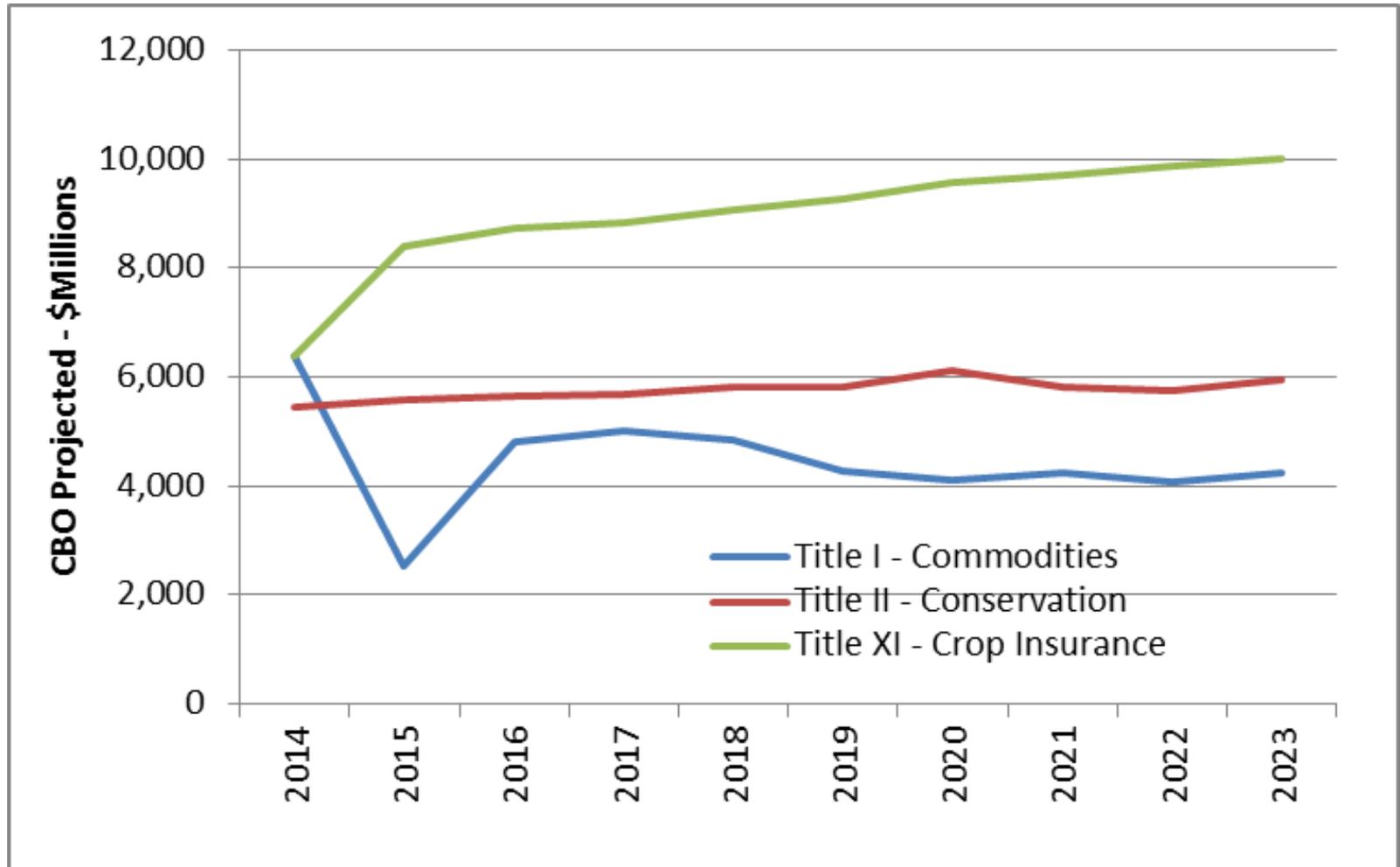
Large Program – virtually all commercially important acres of major crops



Budget Size and Shares



Ag titles total about \$18B, or .5% of budget



Crop Insurance



"Bummer of a birthmark, Hal!"

Gary Larson – *The Far Side*

“ ’cause that’s where the money is ...”

- About \$10B premium, \$110 liability, .9 LR (running)
- Growing share of scored budget, pressure to shrink
- Likely that there will be a negotiations within committee across programs:
 - Crop Insurance vs. Commodity vs. Conservation programs?
 - How to build “best” support or risk mitigation framework rather than protect maximum transfer (also risk reducing)
 - Numerous commodity and interest group proposals surfacing
 - “Eggs on my ice cream” problem

Some conversation-starting points

- Crop insurance seems to have gained support as backbone of farm programs – ***risk management and limit ad hoc payment pressures***
- Conservation title has also grown – ***conservation, environmental goals, sustainability***
- Commodity title declining – ***income support?***
- Carrot and Stick conversations not always best way to identify good policy options
- Will still be friction over where to spend money within the farm bill. Budget realities will continue.

Some conversation-starting points

- **Basic Economic Principles:**
 - If a policy objective is agreed upon, least cost option to attain is often preferred
 - If policy objective is not agreed upon, debate often is about how much can be spent to partially attain
 - **Distributional** effects often debated (difficult to agree upon)
 - Results in debates about **where** to spend money
 - IMO *Conservation or Crop Insurance* debate seems counterproductive
 - Use of one to advance other may be inefficient

Some conversation-starting points

- Ratings issues are often separable from view of desirability of production (high yield risk lands that causes no environmental issues vs. low risk lands that do – how to rate?)
- Ratings should be agnostic to other policy goals
- (Op Ed) If a practice improves soil health, condition, sustainability, then likely to improve asset value.
- (Op Ed) If a practice lessens risk for damage, or improves yield potential, or lessens costs, then likely to improve profitability.

Some conversation-starting points

- Crop insurance not likely best vehicle to advance goals of conservation. Likely not worst either....
- Neither should crop insurance encourage “bad” policy outcomes (i.e., encourage production in areas agreed to pose greater risk than benefit).
- Both Crop Insurance and Conservation titles require and deserve significant support to advance important public policy goals

Final thoughts and Observations

- Most farmers are great conservationists, and want to preserve value of their assets.
- Linking to crop insurance may send wrong message
- If major Crop insurance changes occur, could lose avenue for support.
- Ratings by practice -- legitimate actuarial questions
- **Efficiency question remains – if you had one more dollar to spend to encourage conservation, would you spend it on a crop insurance incentive?**