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# Considerations 1 Through 4: Redux

*This is the second in a four-part series*

*“Read not to contradict and confute; nor to believe and take for granted; nor to find talk and discourse; but to weigh and consider.”*

—Francis Bacon, *The Essays*

This is the second in a four-part series of these posts in Crop Insurance TODAY®.

Leading up to the 2014 Farm Bill, Keith Collins and I penned an article entitled “Ten Considerations Regarding the Role of Crop Insurance in the Agricultural Safety Net.” The piece can be found in Choices Magazine, a publication of the Agricultural and Applied Economics Association. As the 2014 Farm Bill was being debated, much of the discussion was focused on the farm safety net and the role crop insurance. Since that time, two Farm Bills have been enacted, the 2014 bill and the 2018 Farm Bill. In both bills, the role of crop insurance has been solidified as the essential element of the farm safety net.

As this issue of the magazine comes to press, our nation and economy still face the threat of the pandemic and, in addition, we are beginning to engage the new political Administration. As such, we have much to *consider*. In what follows we revisit four of the original “Considerations” in an attempt to assess how far we have come relative to where we may be going.

## Considerations 1 through 4 Redux

1. Is there a public interest in a resilient, financially sustainable and competitive industry

that produces the nation’s food and is subject to natural disasters and other shocks?

An issue of “public interest” merits acknowledgment and presumably action and/or involvement by the Federal government and is fundamental to our national welfare. Perhaps no better indication of public interest in agriculture is the fact that, throughout the pandemic, both agriculture and insurance have been recognized as essential industries. The history of Farm Bill legislation, along with the establishment of the USDA in 1862, are evidence of our nation’s longstanding public commitment to the importance of agriculture in our society. With respect to the financial resiliency of our nation’s farmers, this public commitment manifests itself in the farm safety net and crop insurance, which assists farmers in need and helps make available the risk management tools for them to financially protect their operations.

2. Should there be taxpayer (government) support for a farm safety net?

Given the demonstrated public interest in agriculture, and the susceptibility of agriculture to weather and climate related disasters, it would seem to follow that there should be some level of public support. The history of most developed nations indicates a socially revealed preference for some form of public economic support for agriculture, specifically

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for farmers. The U.S. experience and the Federal investment in agriculture confirm that the public interest does in fact garner public financial support.

### 3. What is the willingness and ability to spend on the farm safety net?

The Federal government spent approximately \$28.9 billion in 2020 on the farm safety net, according to the Congressional Budget Office. This represents less than one-half of one percent of total Federal outlays. Considering that agriculture is an industry that directly benefits every American citizen multiple times each day, one would be hard pressed to find a higher return on investment. Beginning with the 1994 Crop Insurance Reform Act most legislation has either increased premium support levels or added new risk management options for farmers to encourage greater participation.

These actions would indicate that the public is both willing and able to effectively support the farm community, especially in times of farm financial stress. NCIS has seen this fact borne out in the opinion research it routinely conducts. For example, a national public opinion poll commissioned in 2016 found that 92 percent of U.S. voters support spending taxpayer dollars on farm policy. It's not just U.S. voters either. This sentiment extends to opinion leaders in the nation's capital, too.

To paraphrase one participant in a recent D.C. focus group stated: "The government has a responsibility to make sure that farmers are able to produce. Americans need home-grown food." Votes in past farm bills show overwhelming majority is an indication of support. Most recently the Senate passed the 2018 Farm Bill by a margin of 87-13. The initial vote in the House was much closer, but after the bill was finalized by conference committee, the House passed that version by a much larger margin of 369-47. Put another way, there is broad support for farmers and ranchers who supply food, fuel, and fiber to the United States and abroad.

### 4. Should the safety net be *ex ante* or *ex post*?

According to Merriam Webster, the expression *ex ante* can be considered as being "based on assumption and prediction and being essentially subjective and estimative."



According to dictionary.com, *ex ante* is "based on anticipated changes or activity in an economy."

Today's crop insurance system is *ex ante* in nature enabling farmers to proactively manage their risk. Perhaps the best discussion of the *ex ante* benefits of crop insurance can be found in a September 1989 Government Accounting (Accountability) Office report entitled *Disaster Assistance: Crop Insurance Can Provide Assistance More Effectively Than Other Programs*<sup>1</sup>. Quoting directly from the report:

*"Of the currently available forms of providing disaster assistance, the crop insurance program most consistently provides farmers with assistance directly related to the amount of loss suffered by the farmer because the terms of the compensation in an insurance policy are determined before the disaster occurs. In effect, the decision about how much to compensate disaster victims under the crop insurance program has been made before the disaster occurs. When a disaster occurs, lawmakers and program administrators under the crop insurance program do not have to react to determine where assistance should be made available and what level of assistance should be provided."*

Fast forward to 2017 and the GAO's conclusion was further reinforced in an award-winning, peer reviewed publication<sup>2</sup> authored by Dr. Harun Bulut, NCIS Senior Economist. In the article, Dr. Bulut demonstrated that it is socially optimal that government prefers to support farmers' purchases of crop insurance *ex ante* as opposed to solely relying on *ex post* disaster aid.

From a practical standpoint farmers and ranchers have come to rely on the *ex ante* nature of crop insurance. Crop insurance allows farmers and ranchers to manage their risks knowing that, despite whatever curve-balls are thrown by Mother Nature and the markets, by planning ahead they will have an adequate financial backstop to remain in business.

## The Next Four

In the Third Quarter we will consider: Is the safety net income support or risk management; Is current risk sharing optimal; What is the role of area versus individual plans; and Should the safety net be incentivized.

## In This Issue

This issue contains the annual in-depth look at agriculture, weather events, and the crop insurance program results in 2020. While Covid-19 seemed to dominate much of the country's attention, there were many weather-related events that did as well. And most of those affected America's farmers and ranchers. The 2020 Year in Review article details commodity prices, weather events, crop insurance premiums and losses, and how the crop insurance industry fared through it all. We have been developing the Year in Review articles for more than a decade and they serve as a great "in one place" resource for information.

The latest What's Growing On article discusses resilience and sustainability in agriculture and what that means for crop insurance. Peer-reviewed research shows that crop insurance is not a hindrance to farmers participation in conservation practices.

NCIS, the American Association of Crop Insurers, and the Crop Insurance and Reinsurance Bureau held a joint virtual 2021 Crop Insurance Industry Annual Convention on February 9. While meeting in person would have been optimal for this conference, the presentations by all of the speakers, including Senators Debbie Stabenow and John Boozman, were excellent and informative. Highlights from the conference begin on page 40.

This issue also contains highlights from the virtual Regional/State Committee Chair training in late March.

We hope that you enjoy all that this issue has to offer!

<sup>1</sup> <https://www.gao.gov/assets/rced-89-211.pdf>

<sup>2</sup> <https://www.jstor.org/stable/44840964>