



# The Development of Crop Insurance & the U.S. Farm Safety Net

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Every American farmer today feeds, on average, 155 people. That is roughly a six-fold increase from just five decades ago, when farmers fed just 26 people. Developments in technology, farming practices, education and public policy made it possible, improving farmer efficiency by nearly six-fold and providing the American public with the world's most affordable, abundant and safe food supply.

America's commitment to agriculture is not surprising. The country's Founding Fathers were themselves farmers and recognized the importance of a country's ability to feed and clothe itself. Thomas Jefferson called farmers our "most valuable citizens," and George Washington noted, "I know of no pursuit in which more real and important services can be rendered to any country than by improving its agriculture."

Through the years, public support for agriculture has taken many forms, from investments in research and education to disaster aid and individual commodity programs. That journey has led us to today's safety net, with crop insurance as its centerpiece. What tomorrow holds is anyone's guess, but when charting a course for the future it is important to understand the policy decisions of our past.

## Beginning with a Focus on Education

The early years of farm policy were dedicated to education, research and training —a dedication that still lives on with public universities, publicly administered extension programs, and partnerships between the public and private sectors, such as NCIS' risk management education programs for socially disadvantaged and limited-resource farmers.

Early public investment began in 1862, when Congress passed the Morrill Act, which distributed public land to several states and territories and established colleges of agriculture and mechanic arts. That same year also brought another monumental event for the agricultural industry when President Abraham Lincoln instituted the Bureau of Agriculture.

The Hatch Act, passed in 1887, continued policymakers' push for improved training and research. It established experiment stations, provided centers for scientific research, transformed the Bureau of Agriculture into the United States Department of Agriculture (USDA), and added the Secretary of Agriculture to the president's cabinet, thus cementing agriculture's place as a public policy priority.

Of course, new technologies and best management practices designed to enhance productivity and efficiency are meaningless unless farmers

can readily access and afford these tools—something Congress addressed in the early 1900s with three key pieces of legislation. In 1914, the Smith-Lever Act set up the Cooperative Extension system to communicate new technologies from the USDA directly to farmers. Next, the Federal Farm Loan Act of 1916 helped create 12 Cooperative Federal Land Banks, thus starting the Farm Credit System. And lastly, the Smith-Hughes Act of 1917 provided Federal support for teaching vocational agriculture in high schools.

## A Farm Safety Net Evolves in Turbulent Times

When the U.S. economy collapsed during the Great Depression and rural America struggled with one of the worst droughts in history, it became readily apparent that investments in education and training alone were not a sufficient farm policy. Net farm income plummeted 70 percent between 1929 and 1933 and crop prices dropped by 56 percent. The number of Americans employed in agriculture also started to dwindle, falling 50 percent since the turn of the century.

To counteract the effects, President Franklin D. Roosevelt signed the Agricultural Adjustment Act (AAA) of 1933, the country's very first farm bill. This legislation was designed to bring stability to the agricultural sector by granting the Secretary of Agriculture new power. Specifically, the secretary was authorized to: 1) reduce acreage by voluntary agreements, 2) enter into agreements with processors to control prices paid to farmers and 3) allow the USDA to spend money, expand markets or remove surpluses.

Three years later, the AAA was replaced by the Soil Conservation and Domestic Allotment Act, which encouraged conservation by paying farmers for planting soil-building crops. This Act was amended just two years later when Congress approved permanent legislation that included price and income policy for agriculture.

Designed to stabilize prices, the Agricultural Adjustment Act of 1938 introduced commodity stock holding by the government; buying commodities in periods of surplus and selling in periods when production was short. But perhaps, in retrospect, most importantly, the Act provided for the Federal Crop Insurance Program and planted the seed of what



1862

### The Morrill Act

Distributed public land to several states and territories, establishing colleges of agriculture and mechanic arts. That same year, President Abraham Lincoln instituted the Bureau of Agriculture to advance international botanical examination and national crop improvement.



1887

### The Hatch Act

Established experimental stations, providing research centers for scientific investigations benefiting farmers, ranchers and other individuals involved in food production and/or agriculture. The Act also helped transform the Bureau of Agriculture into the United States Department of Agriculture and added a secretary of agriculture to the president's cabinet.



1914

### The Smith-Lever Act

Set up the Cooperative Extension system to communicate new technologies from the USDA directly to farmers. This connected the education provided at land-grant universities, established under the Morrill Act, to their communities providing economic and agricultural development.



1916

### Federal Farm Loan Act

Created 12 Cooperative Federal Land Banks, thus starting the Farm Credit System. The goal of this Act was to increase credit to rural family farmers.



1917

### The Smith-Hughes Act

Provided federal support for teaching vocational agriculture in high schools, starting the agricultural education program before students entered the workforce or postsecondary education programs.



1933

### Agricultural Adjustment Act

Established first farm bill to:

- 1) Reduce acreage by voluntary agreements.
- 2) Enter into agreements with processors to control prices paid to farmers.
- 3) Allow the USDA to spend money, expanding markets or removing surpluses.

grew to become our modern-day farm policy.

Even though crop insurance was originally introduced on a pilot basis and only covered wheat, it would go on to pave the way for farmers to financially recover from natural disasters and volatile market fluctuations; pay their bankers, fertilizer suppliers, equipment providers and landlords; purchase their production inputs for the next season; and give them the confidence to make longer term investments that increased their productivity.

By 1939, approximately 165,000 wheat policies were in place in 31 states. According to *Crop Insurance, Disaster Assistance, and the Role of the Federal Government in Providing Catastrophic Risk Protection*, the government “absorbed all delivery and operating costs” ensuring each of the policies was covered. As the government continued to expand the Federal Crop Insurance Program, eventually covering much more than just wheat, it remained a pilot program for the first 40 years.

The Agricultural Act of 1949, another permanent piece of agricultural legislation, was enacted to broaden commodity cover-

**“Agriculture...is our wisest pursuit, because it will in the end contribute most to real wealth, good morals, and happiness.”**

***President Thomas Jefferson***

age, maintain acreage allotments and extend price supports based on a parity concept, which was meant to raise commodity prices and help them keep pace with inflation. Additionally, the bill created the Farmers Home Administrations (FMHA) emergency loan program, which established emergency loans at subsidized interest rates for farmers who suffered losses caused by a natural disaster.

It is important to note that if, or when, Congress faces the dilemma of not passing a new farm bill and the current rule expires, the rules and regulations governing most of U.S. farm policy would automatically revert to the permanent 1938 and 1949 agricultural acts.

From 1954 to 1970, farm policy slowly

evolved with the passage of four new acts. The first being the Agricultural Act of 1954, which introduced flexible price supports to commodity programs. The second, the Agricultural Act of 1956, introduced the use of conservation reserve, in addition to acreage control, for supply management. Next came the Food and Agricultural Act of 1965, establishing new income support payments in combination with reduced price supports and continued supply controls. Finally, the first inclusion of a title for rural development came in the 1970 Agricultural Act.

## Preparing for Bad Times During the Good

Positive changes were beginning to take place within agriculture during the 1970s, thanks in part to past public investments. Between 1970 and 1973, farmers saw a 73 percent increase in their real net income. Land values also increased 376 percent in the 1970s. However, most decision makers recognized that good times do not always last, so enhancements were made to provide a better cushion when tides inevitably turned.

Specifically, the Agricultural Act of 1973 created disaster payments for farmers who were prevented from harvesting two-thirds of normal production, price targets for selected commodities and deficiency payments to farmers of those commodities when prices fell below target levels. The Agricultural Act of 1977 further increased target prices and loan rates, revised payment limits upwards and substituted current planted acreage for allotments. Then came the Federal Crop Insurance Act of 1980, which phased out the free Federal farm disaster payment program and enabled private crop insurers and agents to market “All-Risk” crop insurance—the birth of today’s public-private partnership.

Initially the 35 companies that held a reinsurance agreement with FCIC for the 1981/82 crop year had a slow start due to a shortened sales season, but still sold \$12-13 million in premium with a loss ratio of around 60 percent. In 1982 and 1983, the Federal crop insurance program paid out 63 percent more in losses than premiums paid in. All told, more than \$1 billion in crop insurance losses were paid out in 1982 and 1983, equaling half as much as had ever been paid out during the entire 45-year history of the program.



Steve Harms, Rain and Hail L.L.C., called 1984 the “year of contrasts.” The nation’s private crop-hail insurance program had a tremendous 1984, experiencing a loss ratio of 40.8 percent, the lowest since 1946. However, the Federal Multiple Peril Crop Insurance (MCPI) program was again disastrous. More than \$638 million was paid in losses resulting in an industry loss ratio of 147 percent.

Events in 1988 then took a turn for the worst. While the clear skies and high temperatures produced abnormally low crop-hail losses, the effects on crop yields and Federal crop insurance were near disastrous levels. By the end of 1988, very few geographic areas had been spared by the drought. Illinois, North Dakota and Montana had statewide loss ratios that exceeded 500 percent. Indiana’s loss ratio was 400 percent; Iowa, 375 percent; South Dakota, 338 percent; Minnesota, 309 percent; Ohio, 298 percent; and Missouri, 200 percent.

The 1988 drought dominated the news media, and all eyes were on Washington, D.C., for answers. Eventually disaster legislation was enacted that provided for relief on nearly all crops in all states. It also formalized the link between crop insurance and eligibility for disaster assistance, requiring farmers to purchase or maintain a Federal policy for 1989 if the 1988 loss was 65 percent or greater and a disaster payment was received.

## Policymakers Turn to Crop Insurance

Despite the investments made in agriculture throughout the ‘70s, U.S. agriculture was again reeling, both with adverse weather and an unparalleled farm debt crisis. Producers needed assistance, but aid was expensive, not sufficiently targeted and slow to arrive, causing hardship, not just in the countryside, but for taxpayers as well. Even as late as the early 1990s, crop insurance participation rates hovered in the 30 percent range and Congress was spending considerably more each year on *ad hoc* disaster relief measures than risk management.

That is when Congress passed the Federal Crop Insurance Reform Act of 1994, which came on the heels of a disastrous 1993 that saw more than 21 million acres of flooded



## 1936 Soil Conservation and Domestic Allotment Act

Encouraged conservation by paying benefits to farmers for planting soil-building crops instead of primary crops that were being pushed prior to 1936. This act lasted two years before being amended.



## 1938 Agricultural Adjustment Act

Created the Federal Crop Insurance Program and firmly planted the seed that has allowed crop insurance to grow to the number one most popular and preferred farming safety net program to this day. Even though crop insurance was originally introduced on a pilot basis, initially only covering wheat, this addition would go on to pave the way for farmers to financially recover from various natural and economic disasters.



## 1949 Agricultural Adjustment Act

Enacted to broaden commodity coverage, maintain acreage allotments and extend high price supports based on a parity concept. It may be worth noting, that if or when Congress faces the dilemma of not passing a new farm bill, the rules and regulations governing most of U.S. farm policy would automatically revert to the permanent 1938 and 1949 agricultural acts.



## 1949 Farmers Home Administration’s Emergency Loan Program

Established emergency loans at subsidized interest rates for farmers who suffered losses caused by a natural disaster.



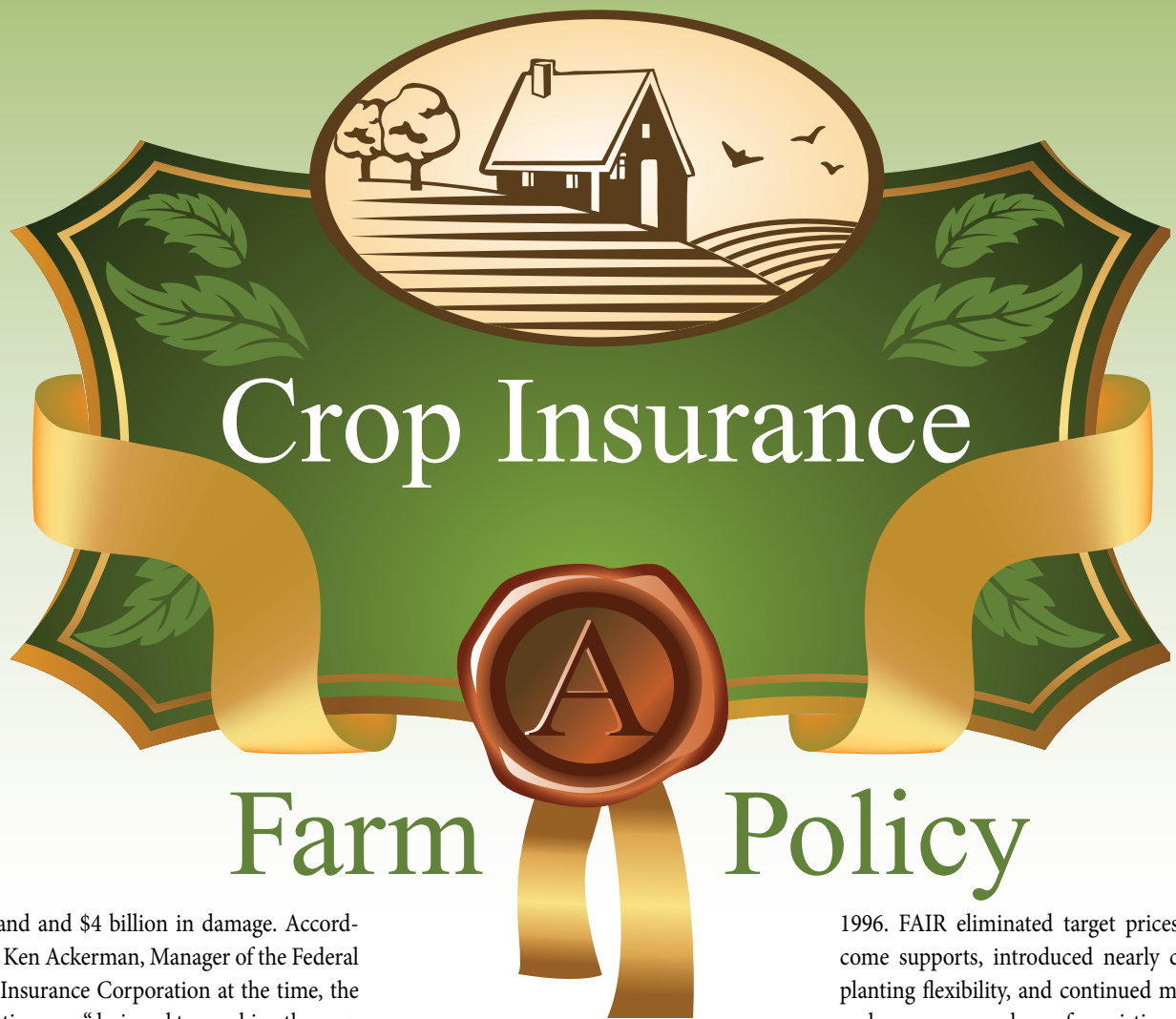
## 1956 Agricultural Act

Introduced the use of a conservation reserve in addition to acreage control for supply management. This Act established the Soil Bank and provided up to 29 million acres of Conservation Reserve.



## 1965 Food and Agriculture Act

Established new income support payments in combination with reduced price supports and continued supply controls. Extended wheat and food programs to 1969 as well.



# Crop Insurance

## Farm Policy

farmland and \$4 billion in damage. According to Ken Ackerman, Manager of the Federal Crop Insurance Corporation at the time, the legislation was “designed to combine the crop insurance program and the various *ad hoc* Federal disaster relief bills into a single, unified program so that farmers will have more certainty in knowing how the government will protect them in the event of a natural disaster and taxpayers will have more certainty knowing what their financial risk exposure is.”

The reform bill also restructured crop insurance to increase farmer participation, increased the private sector’s role, enhanced provisions of the crop insurance program for the farmer and created the USDA’s Risk Management Agency (RMA). It made participation in crop insurance mandatory for farmers to be eligible for deficiency payments under price support programs, certain loans and other benefits. Catastrophic coverage (CAT) was created, compensating farmers for losses exceeding 50 percent of an average yield paid at 60 percent of the price established for the crop that year.

Crop insurance revenue products—Crop Revenue Coverage (CRC) and Income Protection (IP)—were also introduced to farmers beginning with the 1996 spring crop year and

paved the way for one of the most effective and popular forms of crop insurance used by farmers today.

The year 1996 also brought with it a seismic shift in farm policy. Crop prices had rebounded, new international markets were emerging, and growers wanted to be unshackled from the government when making business decisions. Producers and lawmakers alike supported farm policies that were more free-market oriented and benefited from private-sector efficiency.

Thus was born the Federal Agricultural Improvement and Reform (FAIR) Act of

“In no other country do so few people produce so much food, to feed so many, at such reasonable prices.”

**President  
Dwight D. Eisenhower**

1996. FAIR eliminated target prices for income supports, introduced nearly complete planting flexibility, and continued marketing and non-recourse loans for existing crops. It established marketing loans for all program crops with the exception of extra-long staple cotton and capped loan rates at 1995 levels. This Act also streamlined crop insurance by paving the way for a single-delivery system, transferring existing Farm Service Agency (FSA) delivered policies to the private insurance companies.

These changes helped strengthen the crop insurance industry and by 1998, more than 180 million acres of farmland were insured under the program, representing a three-fold increase from just 10 years earlier. Under Secretary of Agriculture at the time, Gus Schumacher, said, “RMA and the private crop insurance companies have developed innovative new crop insurance policies and provided protection to more farmers and more acres than ever before.”

The 1990s saw great expansion in the number of crops and counties protected by crop insurance including canola, blueberries and Florida fruit trees. New programs, such as the Group Risk Plan, Revenue Assurance and Adjusted Gross Revenue, were also introduced.

By May 2000, Congress approved another important piece of legislation to further its goals of making crop insurance more affordable and widely available. The Agricultural Risk Protection Act (ARPA) made it easier for farmers to access different types of crop insurance products including revenue insurance and protection based on historic yields. ARPA also increased premium discounts to farmers to encourage greater crop insurance participation and included provisions designed to reduce fraud, waste and abuse.

Another Farm Bill in 2002 made additional changes to commodity policies and continued the trend of prioritizing crop insurance in America's farm policy portfolio. By that time crop insurance had emerged, for the first time ever, as the largest single source of aid to farmers following disaster.

Just two decades after the historic public-private partnership structure that signifies today's crop insurance system was established, the program had grown substantially and was successfully protecting the economic viability of rural communities across the country. From \$377 million in premium and \$3 billion in liability in 1981, crop insurance boasted more than \$4.1 billion in premium and \$46 billion in liability by 2005.

In 2008 Congress passed the Food, Conservation and Energy Act (2008 Farm Bill) helping build on 2002's farm security plan and again taking steps meant to improve crop insurance. However, new budget pressures emerged as the U.S. economy began experiencing ramifications from the recent recession. This led to budget reductions for crop insurance in the 2008 bill and set the stage for future farm policy deliberations.

## Crowning Crop Insurance as Farm Policy's Centerpiece

By 2012 when new Farm Bill discussions were under way, it became obvious that additional budget cuts to farm policy were inevitable. Farmers from coast to coast repeatedly stated their support for crop insurance and urged lawmakers to expand the system, even if it meant other parts of the farm safety net would need to be reduced or eliminated.

Such support is understandable considering that, at the same time, farmers across the Midwest and Deep South were facing a his-



1970

### Agricultural Act

Created minimum loan rates and additional price supports based on percent of parity. It also required farmers to plant their crop before a set date or have their allotments reduced in future years.



1973

### Agriculture and Consumer Protection Act

Created disaster payments for farmers who were prevented from harvesting two-thirds of normal production, deficiency payments when prices fell below target levels and target prices to determine such deficiency payments.



1977

### Food and Agricultural Act

Increased target prices and loan rates, revised payment limits upwards and substituted current planted acreage for allotments. In addition to these alterations, this Act also introduced Farmer Owned Reserves for grains.



1980

### Crop Insurance Act

Increased participation in the Federal Crop Insurance Program, making it more affordable and accessible. The Act also established multi-peril crop insurance (MPCI) for crops throughout various regions and this form of insurance was viewed as a "replacement for disaster programs."



1981

### Agricultural and Food Act

Continued and modified commodity programs through 1985. Marketing quotas and rice allotments were eliminated under this Act and dairy support prices were lowered.



1985

### Food Security Act

Allowed lower commodity price and income supports, trying to maintain total production and loan rates. Introduced marketing loans for cotton and rice.



1994

### Federal Crop Insurance Reform Act

Made participation in crop insurance mandatory for "farmers to be eligible for deficiency payments under price support programs, certain loans and other benefits." This in turn also created catastrophic (CAT) coverage.

“Providing farmers the option to insure their whole farm at once gives farmers more flexibility, promotes crop diversity, and helps support the production of healthy fruits and vegetables. More flexibility also empowers farmers and ranchers to make a broader range of decisions with their land, helping them succeed and strengthening our agriculture economy.”

***Agriculture Secretary  
Tom Vilsack***

torical drought, far worse than the drought of 1988. But unlike the ‘80s, farmers now embraced insurance. More than 282 million acres and \$117 billion in liability were protected by 2012, and many farmers who had purchased crop insurance for years, were submitting loss notices to their insurance agent for the first time.

All told, crop insurance paid more than \$17 billion in indemnities that year, but that was only part of the story. Farmers received aid quickly after claims were adjusted, and that aid helped them break even, not profit. Because of the system’s unique cost-sharing structure, farmers had paid more than \$4 billion in premiums and shouldered approximately \$13 billion in deductibles before receiving a dime from crop insurance. Private insurers also suffered \$1.3 billion in losses, which otherwise would have fallen on the backs of taxpayers.

Michael Scuse, Under Secretary for USDA, said of the situation after he toured devastated farms that summer: “I have yet to have a single producer call me with a complaint about

crop insurance. That is a testament to just how well agents, adjusters, the companies, and Risk Management Agency (RMA) worked together in one of the worst droughts in the history of this nation.”

The Agricultural Reform, Food and Jobs Act was signed into law on February 7, 2014. The new Act accelerated the evolution from traditional farm price and income support to risk management and solidified crop insurance as the primary tool for farmers in dealing with production and price risk.

The 2008 Farm Bill’s direct and countercyclical payment programs and the state-based revenue program known as ACRE (Average Crop Revenue Enhancement Program) were eliminated. In their place, a farmer could choose one of two new farm programs that began with the 2014 crop year: 1) Price Loss Coverage (PLC), a program that makes a payment to a producer when the market price for a covered crop is below a fixed reference price; or 2) Agriculture Risk Protection (ARC), a program that makes a payment when either the farm’s revenue from all crops or the

county's revenue for a crop (the farmer may choose which alternative) is below 86 percent of a predetermined or benchmark level of revenue.

In addition to these two new farm programs, the 2014 Farm Bill substantially strengthened crop insurance by adding two supplemental policies that will help producers expand their protection against losses due to natural disasters or price declines.

The first program, the Stacked Income Protection Plan, or STAX, is an area revenue plan that a cotton producer may use alone or in combination with an underlying policy or plan of insurance. The second program, the Supplemental Coverage Option, or SCO, provides crop producers with the option to purchase area coverage in combination with an underlying individual policy or plan of insurance that would allow indemnities to be equal to a part of the deductible on the underlying the policy or plan of insurance.

The Farm Bill also put priority on introducing new policies that increase participation by producers of under served agricultural commodities and initiated several feasibility studies to determine where new products and policies might be the most effective. It also provided new and beginning farmers with an additional premium support and the benefits of higher yields until their own actual production history can be provided.

Today, like never before, our farmers have the ability to more quickly recover from economic or natural disasters thanks to crop insurance and its many strengths, including a public-private partnership structure, speed of delivery, the ability to be uniquely tailored for farmers' individual needs, and cost-sharing.

Getting to this stage in our history has required the foresight of leaders dating back to the founding of this great nation who shared a common goal of securing America's food and fiber supply. It will be important that future leaders share this same overarching goal, and as a crop insurance industry, we must remain ready to do our part in meeting whatever challenges tomorrow may bring.

**Editor's Note:** This piece was compiled using a large number of resources. To find a list of those resources, please visit [www.cropinsuranceinamerica.org/resources-materials](http://www.cropinsuranceinamerica.org/resources-materials) and search for this article in PDF form.



1996

## Federal Agriculture Improvement and Reform Act

Repealed mandatory crop insurance participation and also replaced price support and supply control programs with programs of direct payments based on historical production. Congress also established the Risk Management Agency to oversee Federal Crop Insurance Corporation programs, risk management programs and educational programs, supporting U.S. agriculture.



2000

## Agricultural Risk Protection Act

Made it easier for farmers to access different types of crop insurance products including revenue insurance and protection based on historic yields. This Act also increased premium subsidy levels to farmers and included provisions designed to reduce fraud, waste and abuse.



2002

## Farm Security and Rural Investment Act

Established a counter-cyclical payments program. Also amended the Federal Crop Insurance Act.



2008

## Food, Conservation and Energy Act

Helped expand regulatory options of the crop insurance industry conducted by RMA, as well as expanded assistance for organic farmers, research and development.



2014

## Agricultural Reform, Food and Jobs Act

Accelerated the evolution of farm policy from traditional farm price and income support to risk management tools, signifying the importance of farm security.

America's commitment  
to agriculture

America's Commitment



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