

Institutional Barriers to an Insurance-Based Farm Safety Net

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The Most Accurate Farm Bill Prediction of All Time?

“...we have here a law that is likely to become a
part of our permanent legislation.”

— Leonard P. Ayres

on the 1933 Agricultural Adjustment Act from *The Economics of Recovery* (MacMillan, 1933)

“A policy equilibrium is defined to occur when there is no pressure for the mix of policy instruments or form of intervention to change. When a disequilibrium arises, the mix of policy instruments may change.”

— G.C. Rausser, 1982

Policy Disequilibrium?



What Instruments?

- Parity prices
- Farmer-owned reserve
- Acreage allotments/marketing quotas
- Soil bank
- Marketing loans
- Target prices/deficiency payments
- Direct payments
- Standing disaster
- Shallow loss

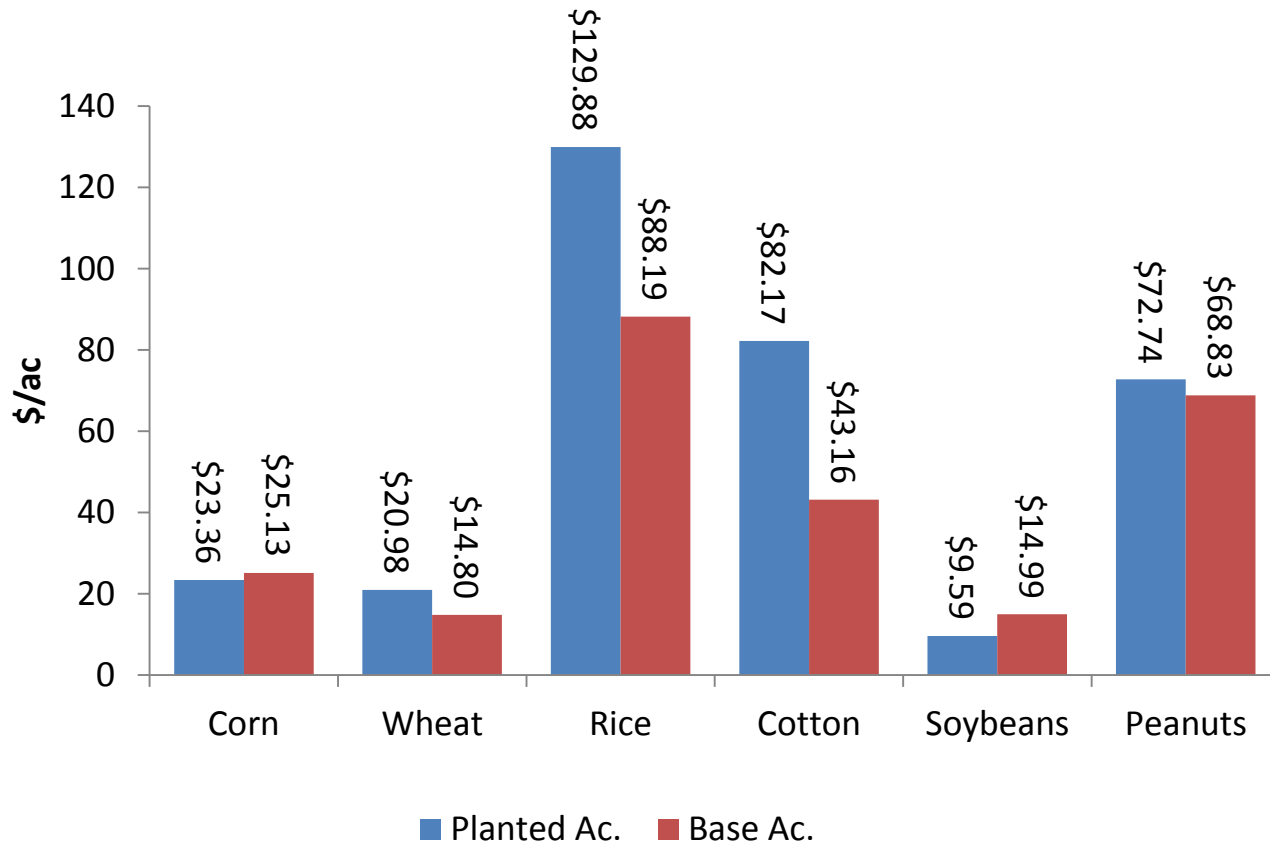
Is a policy equilibrium developing that does not include Title I transfers?

- There are several strong motivations for this:
 - Political unpopularity of DPs
 - Irrelevance of fixed nominal payments for many producers
 - Regressive nature of transfers to farmers
 - Budget constraints
 - Budget scoring procedures
 - Increasing acceptance of crop insurance by program crop farmers as the primary safety net

So why isn't Title I already gone?

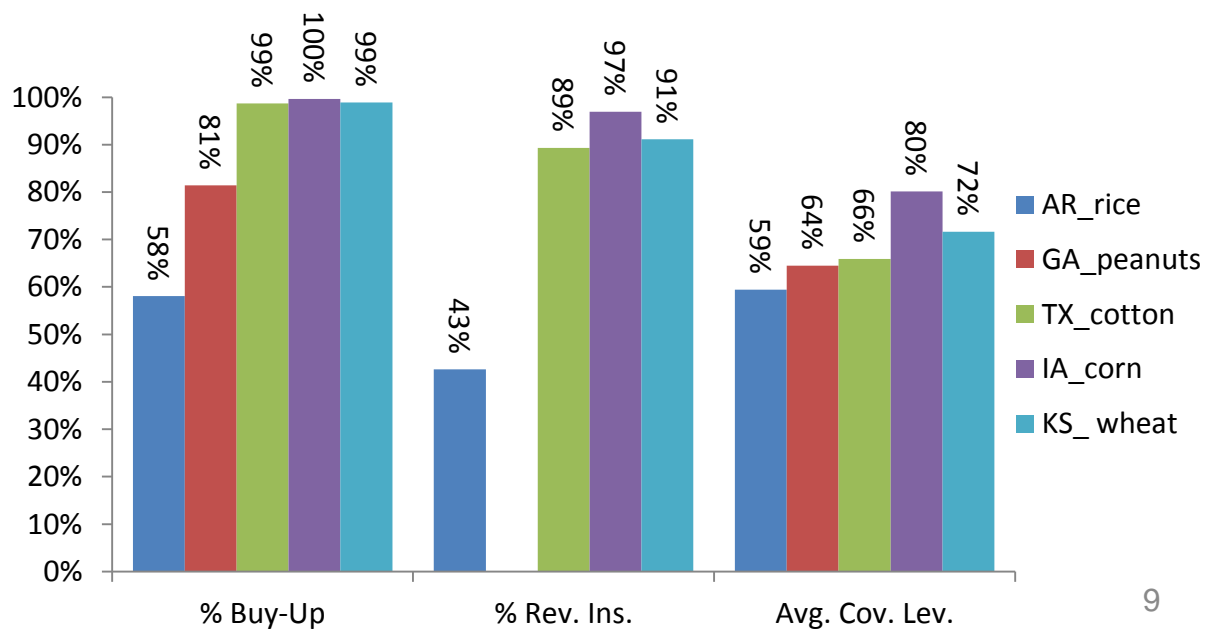
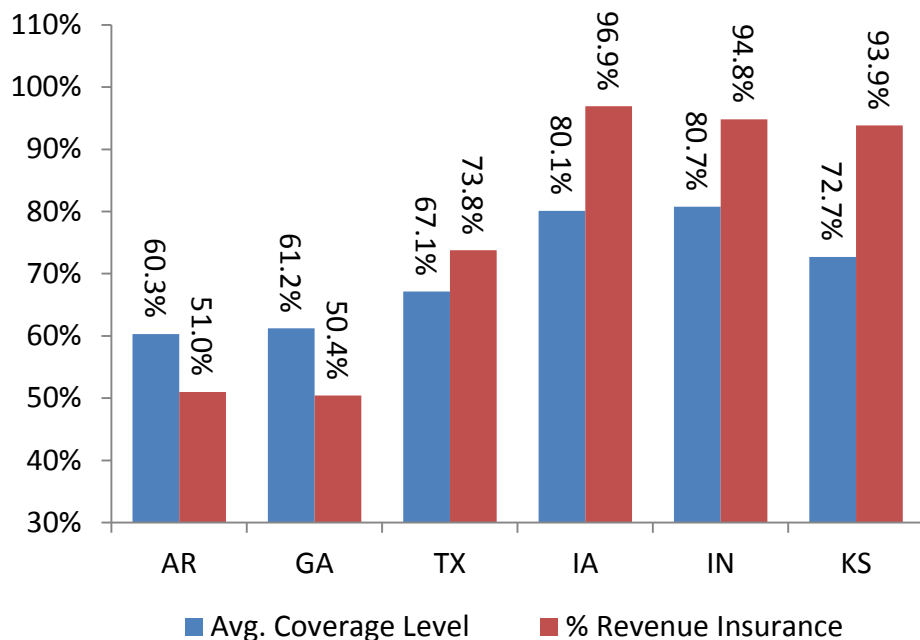
- Permanent law
- Political Economic-Seeking Transfer (PEST) activity
 - Strongly incentivized by baseline budgeting
- Major regional/crop differences in program outlays
- Regional/crop differences in crop insurance participation and experience

CCC Payments / Ac.



Data Source: Congressional Budget Office

Crop Insurance Participation



Data Source: USDA Risk Management Agency, Summary of Business Online.

- The demand for reform is an increasing function of the degree of social waste generated by wealth transfer programs but the supply of reform is not. Much like the demand for goods imagined, but yet beyond the present state of technology to produce profitably, the demand for reform will remain unfilled without a change in the country's political technology. ***The reform of agricultural policies must come through changes in the means of compensating groups who would otherwise be losers or through institutional changes in the relative costs of political activity by groups paying the compensation (typically consumers).***

— Rausser and Foster, 1990

The path forward...

- Rice and peanuts
 - *NOT*, will insurance work? Rather, will insurance pay as well as DCP?
- Lessons from STAX
 - Shift to insurance is possible; ***but baseline considerations are still paramount.***
- Nothing happens without crop insurance industry buy-in
- Whither the FSA?