



Additional Information on the Flake-Duncan-Shaheen Harvest Price Subsidy Prohibition Act

U.S. Sens. Jeff Flake (R-AZ), U.S. Rep. John J. Duncan, Jr. (R-TN), and U.S. Sen. Jeanne Shaheen (D-NC) today introduced the bipartisan, bicameral [Harvest Price Subsidy Prohibition Act](#).

The Harvest Price Subsidy Prohibition Act would save taxpayers \$19 billion by ending subsidies for a costly, little-publicized profit guarantee program within federal crop insurance known as the Harvest Price Option (HPO). Unlike traditional crop insurance plans that protect farmers from unanticipated losses, taxpayer-subsidized HPO plans actually guarantee that farmers don't miss out on unanticipated profits.

The bill would not prohibit the U.S. Department of Agriculture from offering HPO profit guarantee plans, provided that individual policyholders pay the full insurance premium. The bill would do nothing to limit, reduce or alter subsidies associated with traditional crop insurance plans.

Flake first offered the Harvest Price Subsidy Prohibition Act in 2013 as an [amendment to the farm bill](#). At the time, the nonpartisan Congressional Budget Office determined that the amendment would have saved taxpayers [\\$9 billion over 10 years](#). The legislation was not brought to the floor for a vote. Not even one year after Congress enacted that same farm bill, CBO has determined that HPO's cost to taxpayers has more than doubled to \$19 billion.

The Harvest Price Subsidy Prohibition Act is also supported by *Heritage Action, the R Street Institute, the American Enterprise Institute, FreedomWorks, the National Taxpayers Union, Campaign for Liberty, Taxpayers Protection Alliance, Center for Individual Freedom, Coalition to Reduce Spending, Less Government, Taxpayers for Common Sense, Club for Growth and the Environmental Working Group.*

How much would the bill save taxpayers?

The Harvest Price Subsidy Prohibition Act would save taxpayers [\\$18.9 billion over 10 years in budget authority, and \\$16.8 billion over 10 years in outlays](#), according to the non-partisan Congressional Budget Office (CBO).

CBO recently revised its estimate of the projected cost of the farm bill to \$4.8 billion, a \$2 billion increase from what was projected when the bill was passed in 2014. If past farm bills are any indicator, these costs are likely to continue to climb into the future. The Harvest Price Subsidy Prohibition Act is a commonsense way to save \$19 billion, while not affecting traditional crop insurance programs.

How does traditional crop insurance work?

A traditional crop insurance policy locks in a guaranteed level of revenue at planting time. That's when the insurer sets a farmer's revenue guarantee based on the amount of a crop the farmer is expected to produce, and the price that crop is expected to sell for at harvest time.

After harvest, if the farmer fails to earn that guaranteed level of revenue – whether due to lower-than-anticipated prices, lower-than-anticipated production, or both – the insurer will make up the difference between actual revenue and anticipated revenue. When Congress designed crop insurance to be a safety net for farmers, this is the type of system they intended to create.

However, a hybrid of this traditional policy – the harvest price option (HPO) – is fast becoming known as the taxpayer-funded “Cadillac coverage” option of federal crop insurance.

HPOs differ from traditional policies in one significant way: If the price of the crop at harvest is higher than what was originally estimated, the taxpayer-backed revenue guarantee is recalculated using the higher harvest price. HPOs can actually result in farmers getting more revenue than was expected when crops were planted.

For example, in 2012, when the planting price estimate for corn was \$5.68 per bushel, by harvest time, that price skyrocketed to \$7.50. A corn farmer with an HPO would have seen that taxpayer-funded revenue guarantee increase by 32 percent. Soybeans experienced a similar situation, with a 23 percent increase over the planting estimate. According to Iowa State agricultural economist Bruce Babcock, taxpayers were on the hook for corn and soybean crop insurance payouts that were some \$6 billion higher in 2012 than they would have been without HPOs.

HPO supporters argue that the policy allows farms to have more confidence in forward selling their production. Forward selling creates a risk that harvested production may turn out to be less than the amount forward sold. Any amount forward sold in excess of production may have to be bought back at the higher price. Without HPO, proponents argue, this risk may cause farms to reduce the share of production they forward sell.

However, crop insurance was not designed to reduce risk in forward selling. At very least, taxpayers should not be forced to subsidize policies that encourage farmers to engage in risky speculation that is inconsistent with prudent farm management.

Why prohibit premium subsidies for HPOs?

Congress needs to end taxpayer subsidies that incentivize the purchase of crop insurance that goes beyond the definition of what constitutes a safety net.

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