

## **PRODUCTION AND PRICE IMPACTS OF U.S. CROP INSURANCE PROGRAMS**

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**AS SUBSIDIES FOR CROP** insurance premiums have grown in recent years, some economists question whether these subsidies might encourage crop producers to change their planting decisions. Government subsidies could alter producer behavior because they lower the cost of purchasing coverage. This saving represents a benefit to producers that raises

expected returns per acre and provides an incentive to expand acreage in crop production. At an aggregate level, it could shift acreage to riskier crops and riskier regions. If plantings and output increase, market returns to farmers could fall as prices decline, which would in turn offset some of the benefits of the premium subsidies.

This analysis, based on the POLYSYS-ERS model, suggests that the overall effects on crop plantings from subsidized crop insurance are relatively small. Increased plantings are concentrated in the Central and Northern Plains (Montana, Wyoming, North and South Dakota, Nebraska, Colorado, and Kansas) and the Southern Plains (New Mexico, Oklahoma, and Texas). Although planted acreage increases for all insured crops, wheat and cotton account for three-fourths of the increase. Prices for wheat and cotton are about 3 percent lower, whereas prices for feed grains (corn, grain sorghum, oats, barley, and soybeans) are 0.5 percent lower. The lower prices offset some benefits of insurance subsidies to farmers.

