An Analysis of Crop Insurance as a Safety Net for U.S. Peanut Farms

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Risk is prevalent in agricultural production. To alleviate these risks, the federal government intervenes through agricultural policy with policymakers, typically, focusing on assistance to minimize price, market, or production risk. The foundation of agricultural programs is government intervention intended to provide a farm safety net to agricultural producers. These programs aid in managing the food supply while stabilizing agricultural infrastructure.

The 2014 Farm Act represents a shift in the direction of agricultural policy toward risk management policies, which offer a variety of programs for producers. Through multiple coverage options, these programs aim to reduce producers' revenue volatility. Specifically, federal crop insurance has expanded over the past two decades and is considered the most extensive component of the safety net provided by the current farm bill given the availability of policies for a considerable portion of U.S. agriculture. With federal crop insurance policies, producers pay a portion of the premium with the remainder subsidized by the federal government.

The relative importance of federal crop insurance for a specific commodity or geographic region may be debatable. The effectiveness of crop insurance as a safety net for U.S. peanut producers was investigated using case study analysis of representative U.S. peanut farms. Specifically, the financial stability of these farms is considered to test for correlations between crop insurance utilization and potential crop insurance indemnity payments under yield and revenue protection plans at different coverage levels. The impact of management decisions, farm size, and geographic location is also considered.