Weaving the Next Agricultural Safety Net

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No Doha: What will drive debate?

- **Budget:** Are taxpayer dollars being used efficiently?
  - Washington Post series of articles

- **Meeting Uruguay commitments in light of the cotton case**
  - Will the United States report direct payments in the Amber Box?

- **One eye towards a Doha agreement in the future**
  - Senator Chambliss’ desire to make current farm programs “non-trade distorting”
My Objective Today

• Try to give insight into the relative efficiency of current farm bill programs in providing a safety net for producers of supported commodities (corn and beans)
  – Relative to what?

• Outline how targeting revenue instead of price can be achieved
   Revenue targeting can increase efficiency of programs while allowing U.S. to better meet current and future WTO obligations
Current Programs

• Commodity programs protect against low prices
Structure of Program Payments for Corn

Target Price

- Direct Payment: $2.63
- Counter-Cyclical Payment: $2.35
- Loan Rate: $0.28
- Loan Deficiency Payment: $1.95

Regardless Of Market

Only if price is here

“Effective” Target Price

$2.63
$2.35
$0.28
$1.95
Current Programs

• Commodity programs protect against low prices
• Crop insurance protects against low yields
Proportion of Planted Acres Insured Above CAT Levels

Illinois Indiana Iowa
CORN
SOYBEANS
Why Aren’t 100% of Acres Insured?

• Some producers do not need the additional amount of risk protection offered by crop insurance.

• Even with subsidies, net benefit of insurance less than producer premium
  – Guarantee too low
  – Premiums too high

➢ A puzzle why uninsured farmers do not buy GRIP (expected rate of return on premium dollars of 120%)
Does the Current Safety Net Use Budget Dollars Efficiently?

- **High yield, low price**: Payment received, but payment will be excessive
- **Low yield, high price**: Insured farmers may receive a payment if yield is low enough
- **High yield, high price**: No payment needed and no payment received
- **Low yield, low price**: Farm program payment received, insured farmers will likely receive an additional payment.
County Average Corn Revenue from the Market in Sangamon County, Illinois

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($/acre)</th>
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<tbody>
<tr>
<td>2002</td>
<td>350</td>
</tr>
<tr>
<td>2003</td>
<td>450</td>
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<tr>
<td>2004</td>
<td>380</td>
</tr>
<tr>
<td>2005</td>
<td>320</td>
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</table>
County Average Corn Revenue and Average Program Payments Received

- County Avg Rev
- Payment

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<td>2003</td>
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<td>2004</td>
<td>400</td>
<td>60</td>
</tr>
<tr>
<td>2005</td>
<td>300</td>
<td>120</td>
</tr>
</tbody>
</table>
Government Payments: Do they arrive when most needed?
"Excessive" Gains from Marketing Loan Program (Percent of National Loan Rate)

- Corn
- Oats
- Sorghum
- Soybeans
- Wheat
- Cotton
- Peanuts
- Rice
Are Taxpayers Dollars Being Used Efficiently Supporting Crop Insurance?

Program Cost per Dollar of Net Producer Benefit

- 2001
- 2002
- 2003
- 2004
- 2005
- Aggregate Since 2001
Who Benefits from the Crop Insurance Program?

- Farmer Benefit
- Company Benefit

$ million


- 2002: Farmer Benefit = 2,800 million
- 2003: Farmer Benefit = 1,800 million
- 2004: Farmer Benefit = 1,600 million
- 2005: Farmer Benefit = 1,400 million

- 2002: Company Benefit = 1,000 million
- 2003: Company Benefit = 1,100 million
- 2004: Company Benefit = 1,300 million
- 2005: Company Benefit = 1,200 million
Why Not Target Revenue Directly?

• **High yield, low price:** Payment received if revenue is below target revenue

• **Low yield, high price:** Payment received if revenue is below target revenue

• **High yield, high price:** No payment needed and no payment received

• **Low yield, low price:** Payment received, full compensation to target revenue
Two Types of Revenue Programs

- **Green Box Income Insurance**
  - Brings a farmer up to 70% of a five year Olympic average of income on a crop specific basis

- **Target Revenue Program**
  - Brings every farmer up to some percentage of county target revenue
  - County target revenue = effective target price x expected county yield
  - Maximum payment when county revenue falls below 70% of county target revenue
What Prices to Use?

• Effective Target Prices for 2002 Farm Bill

Wheat - $3.40/bu
Corn - $2.35/bu
Soy - $5.36/bu
Oats - $1.416/bu
Peanuts - $0.2295/lb
Barley - $2.00/bu
Cotton - $0.6573/lb
Rice - $8.15
Grain sorghum - $2.22/bu
Y% of Effective Target Price \times \text{Expected County Yield}

70\% \text{ of Effective Target Price} \times \text{Expected County Yield}

\text{Guarantee} = 70\% \text{ of past 5-year Olympic average of crop-specific income}
Average Per-Acre Corn Revenue for Sangamon County, Illinois

$/acre

$0 $100 $200 $300 $400 $500 $600


$/acre
Figure 29. Cotton Yields and Reference Income in Yoakum County, TX (Worst performance of any crop in U.S.)
When Would Green Box Income Insurance Payments Arrive in Sangamon County?
When Would 95% Target Revenue Program Pay?

Avg $/acre payment

Target Rev

County Rev

Avg County Revenue

Impact of Green Box Income Insurance on Sangamon County
Average Corn Revenue

Avg $/acre payment

No Safety Net
Only Green Box

Avg. Co. Rev. No Insurance
Impact of Revenue-Based Safety Net on Sangamon County
Average Corn Revenue

Avg $/acre payment

No Safety Net
Revenue Target

When Would Have LDP and CCP Paid Out Since 1985?
Impact of Current Safety Net on Sangamon County Average Corn Revenue

![Graph showing the impact of current safety net on Sangamon County average corn revenue from 1980 to 2010. The graph includes two lines representing 'No Safety Net' and 'Price Safety Net', with the y-axis labeled 'Avg $/acre payment' and the x-axis labeled with years from 1980 to 2010.]
A Safety Net Comparison
(Average Revenue Per Acre After Payment)
A Comparison of When Payments Would Have Been Received

$/acre

Revenue
LDP + CCP

A Safety Net Comparison
(Average Revenue Per Acre After Payment)
Impact of Revenue Targeting

• Provides effective safety net within prospective WTO limits as proposed by the U.S.
• Consolidates crop insurance, commodity programs, and disaster aid
• Adopts the target (revenue) that farmers prefer
• Would be a departure from 70 years of supporting prices