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

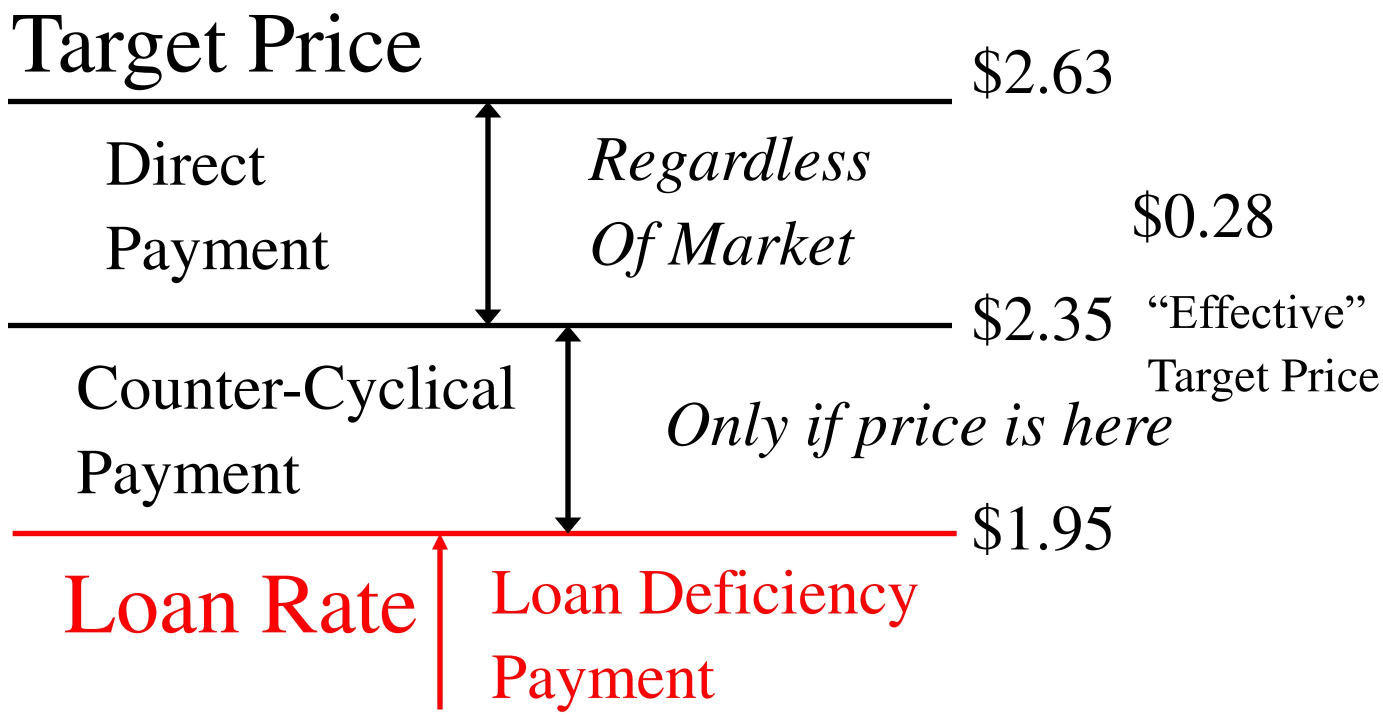
- Try to give insight into the relative efficiency of current farm bill programs in providing a safety net for producers of supported commodities (corn and beans)
  - Relative to what?
- Outline how targeting revenue instead of price can be achieved

❖ Revenue targeting can increase efficiency of programs while allowing U.S. to better meet current and future WTO obligations

Current Programs

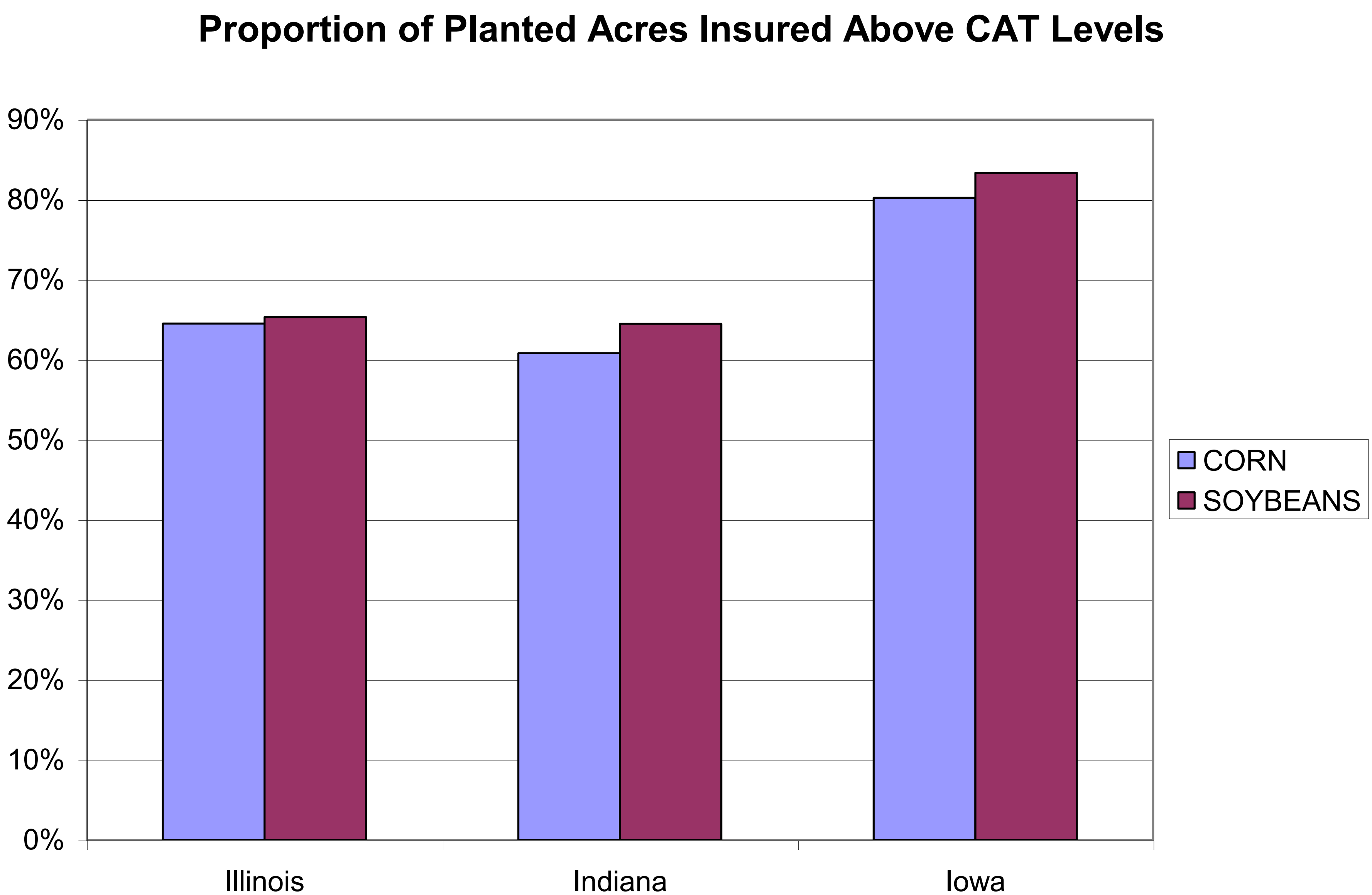
- Commodity programs protect against low prices

Structure of Program Payments for Corn



Current Programs

- Commodity programs protect against low prices
- Crop insurance protects against low yields


Proportion of Planted Acres Insured Above CAT Levels
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Illinois
Indiana
Iowa
CORN
SOYBEANS

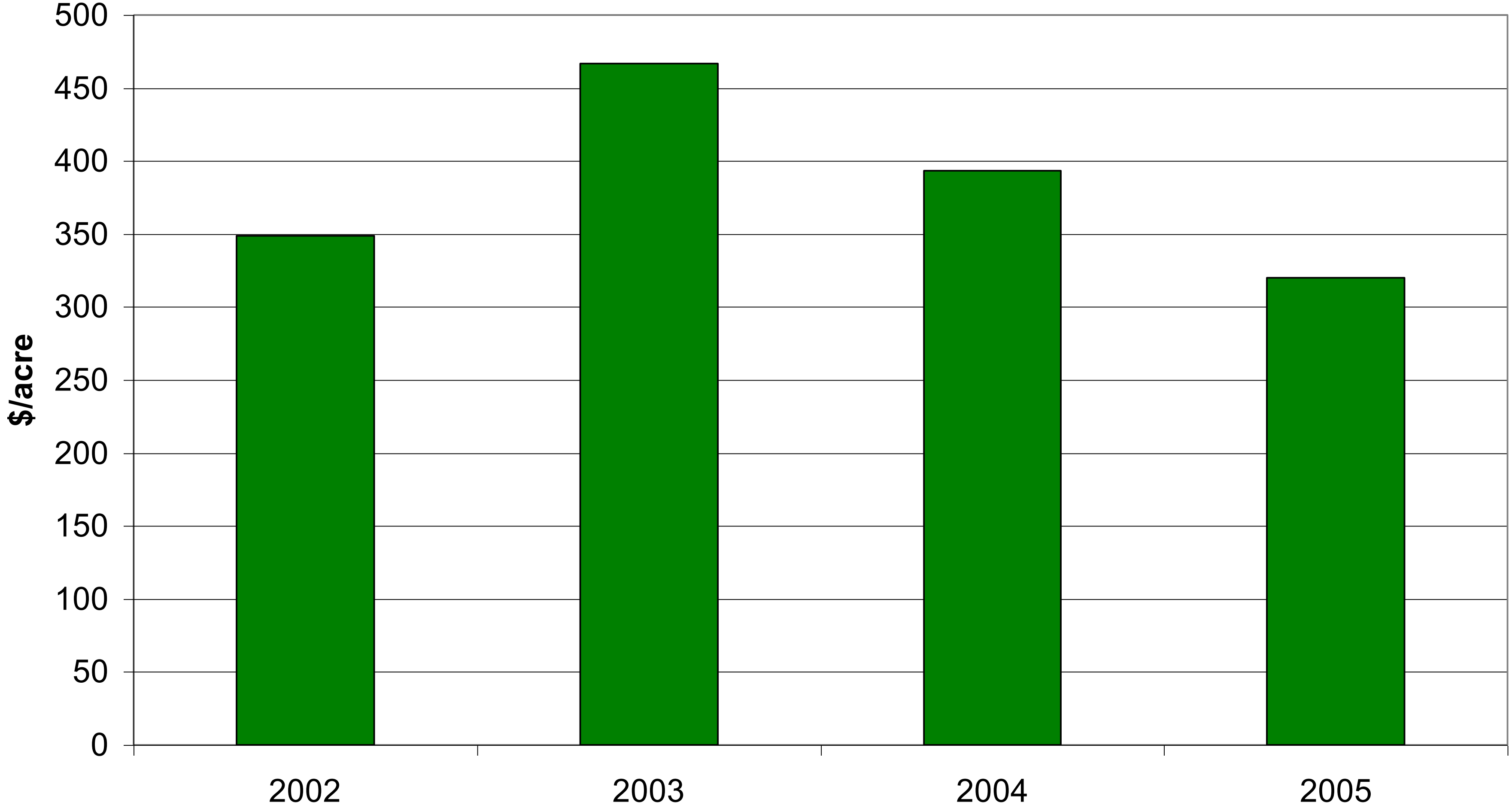
Why Aren't 100% of Acres Insured?

- 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%)

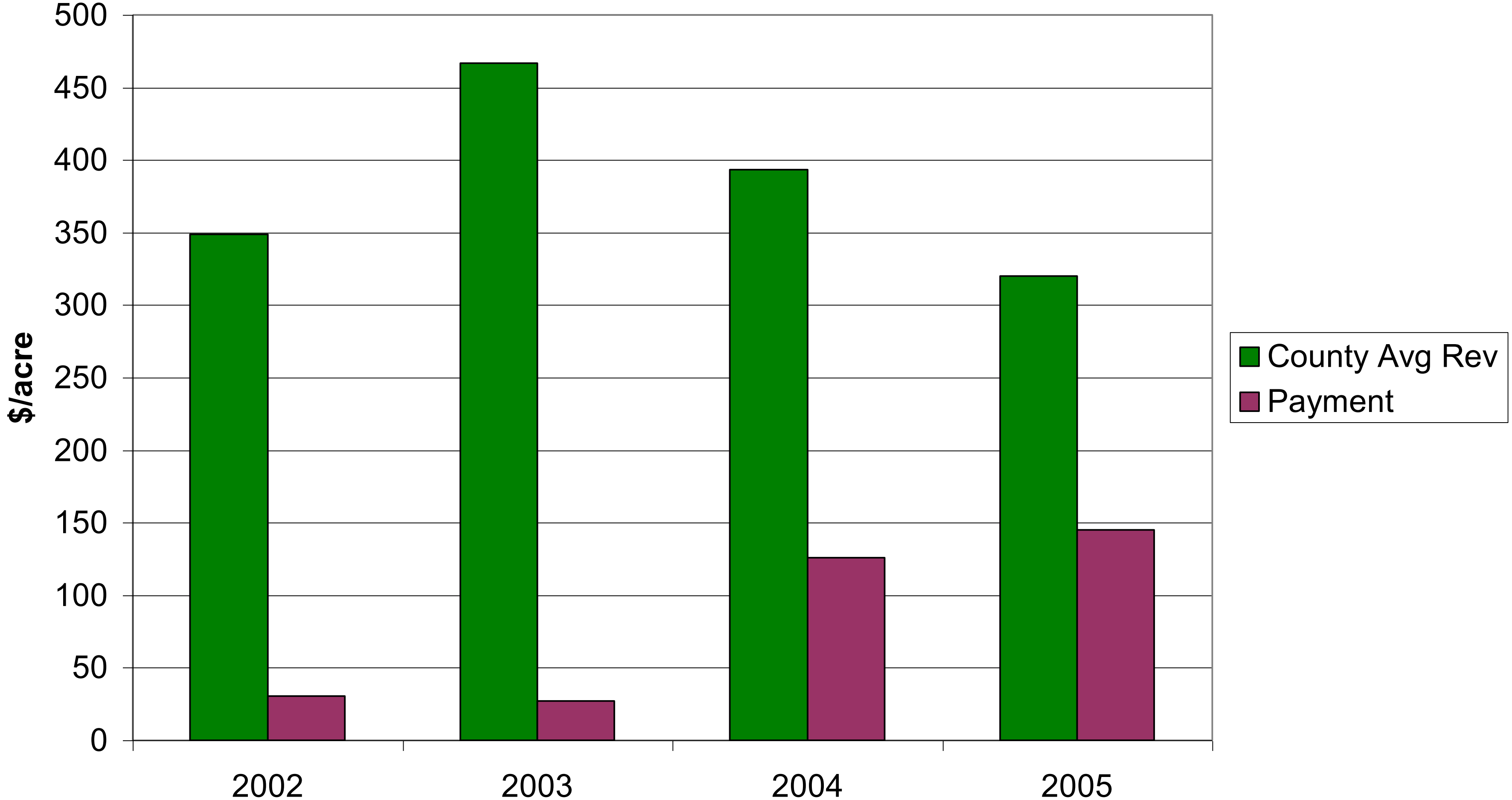
Does the Current Safety Net Use Budget Dollars Efficiently?

- **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.

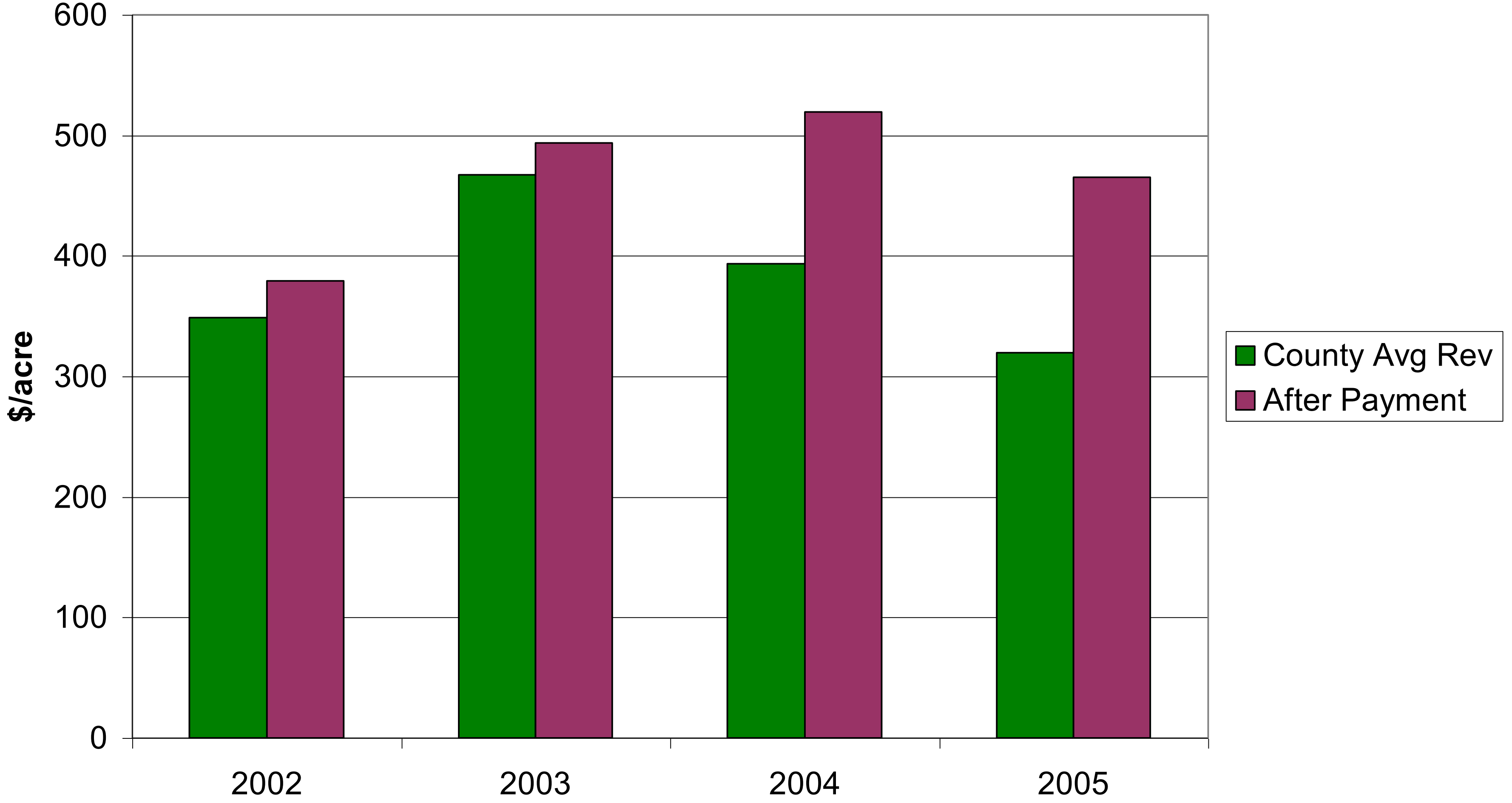
County Average Corn Revenue from the Market in Sangamon County, Illinois



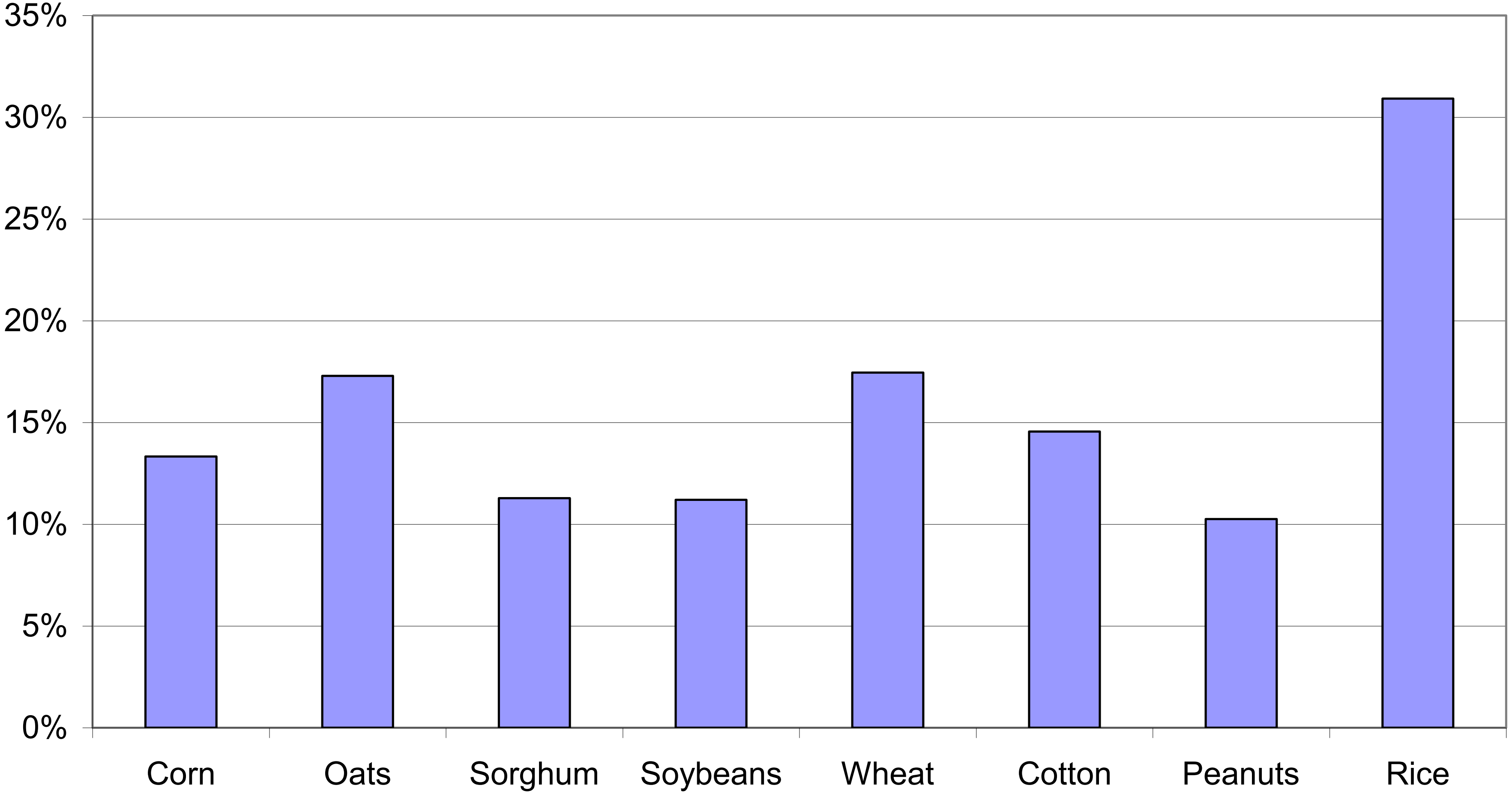
County Average Corn Revenue and Average Program Payments Received



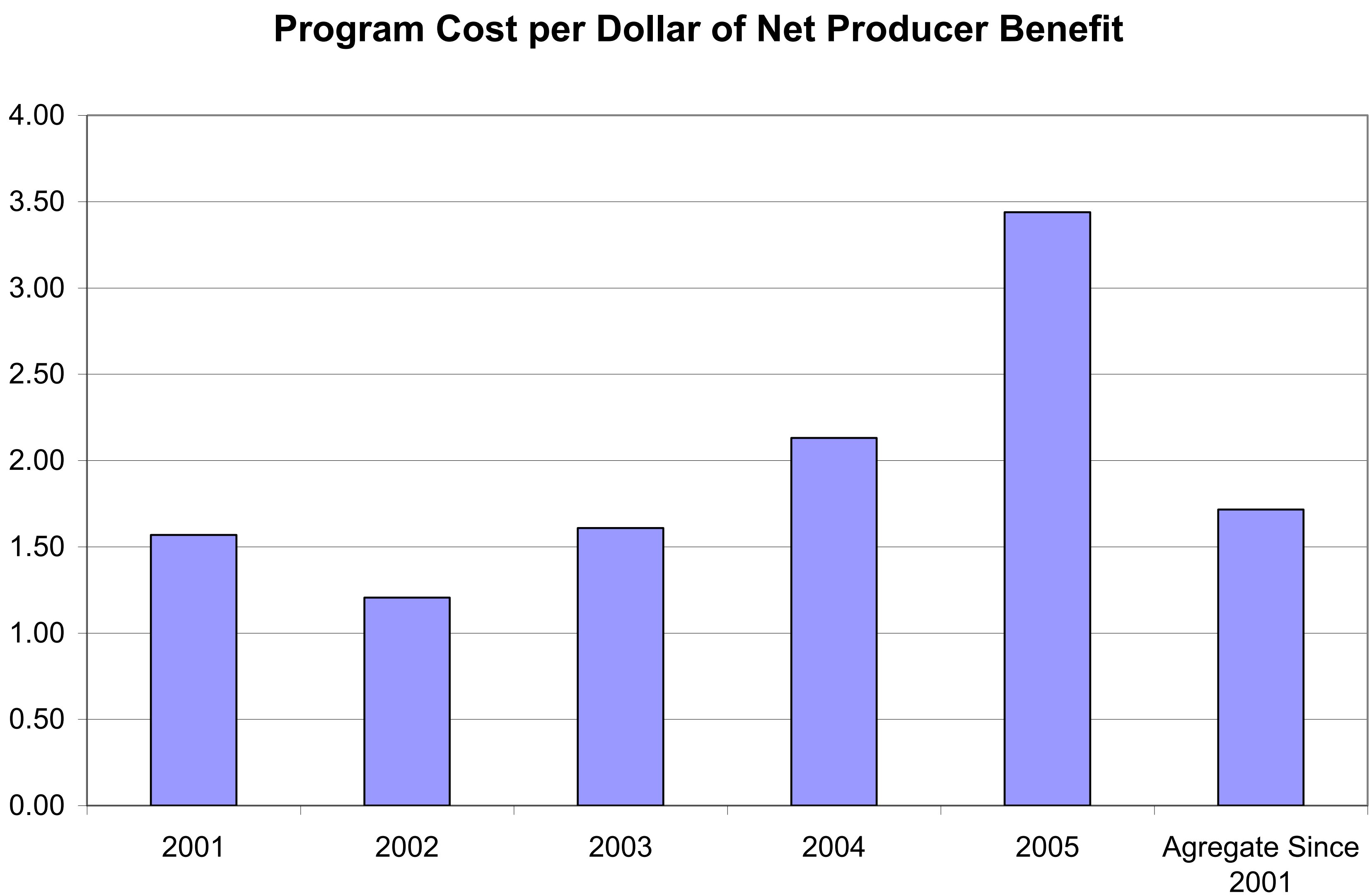
Government Payments:
Do they arrive when most needed?

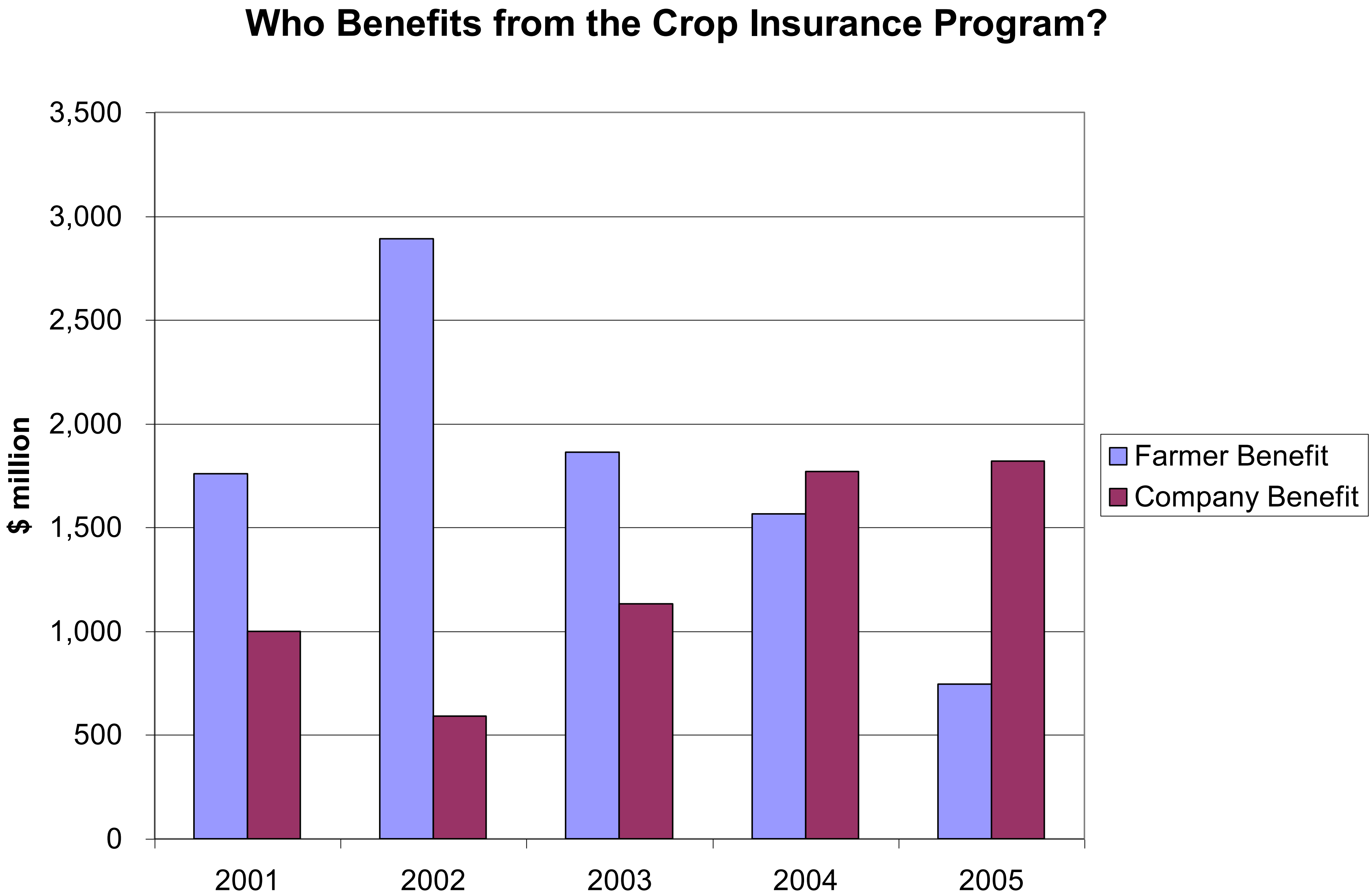


"Excessive" Gains from Marketing Loan Program (Percent of National Loan Rate)



Are Taxpayers Dollars Being Used Efficiently Supporting Crop Insurance?




Who Benefits from the Crop Insurance Program?
$ million
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2001
2002
2003
2004
2005
Farmer Benefit
Company Benefit

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

Soy - $5.36/bu

Peanuts - $0.2295/lb

Cotton - $0.6573/lb

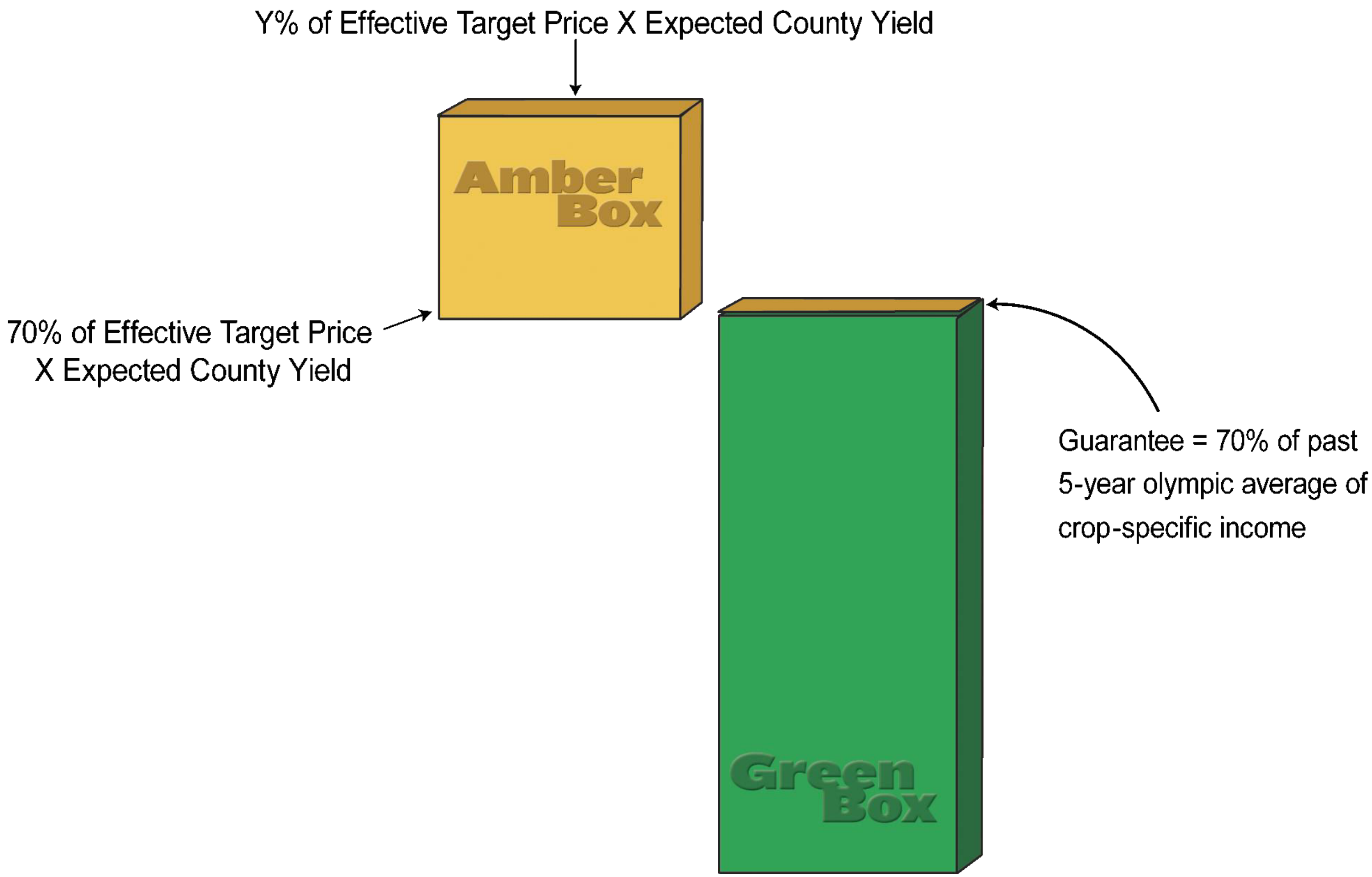
Grain sorghum - $2.22/bu

Corn - $2.35/bu

Oats - $1.416/bu

Barley - $2.00/bu

Rice - $8.15


Y% of Effective Target Price X Expected County Yield
Amber Box
70% of Effective Target Price X Expected County Yield
Guarantee = 70% of past 5-year olympic average of crop-specific income
Green Box

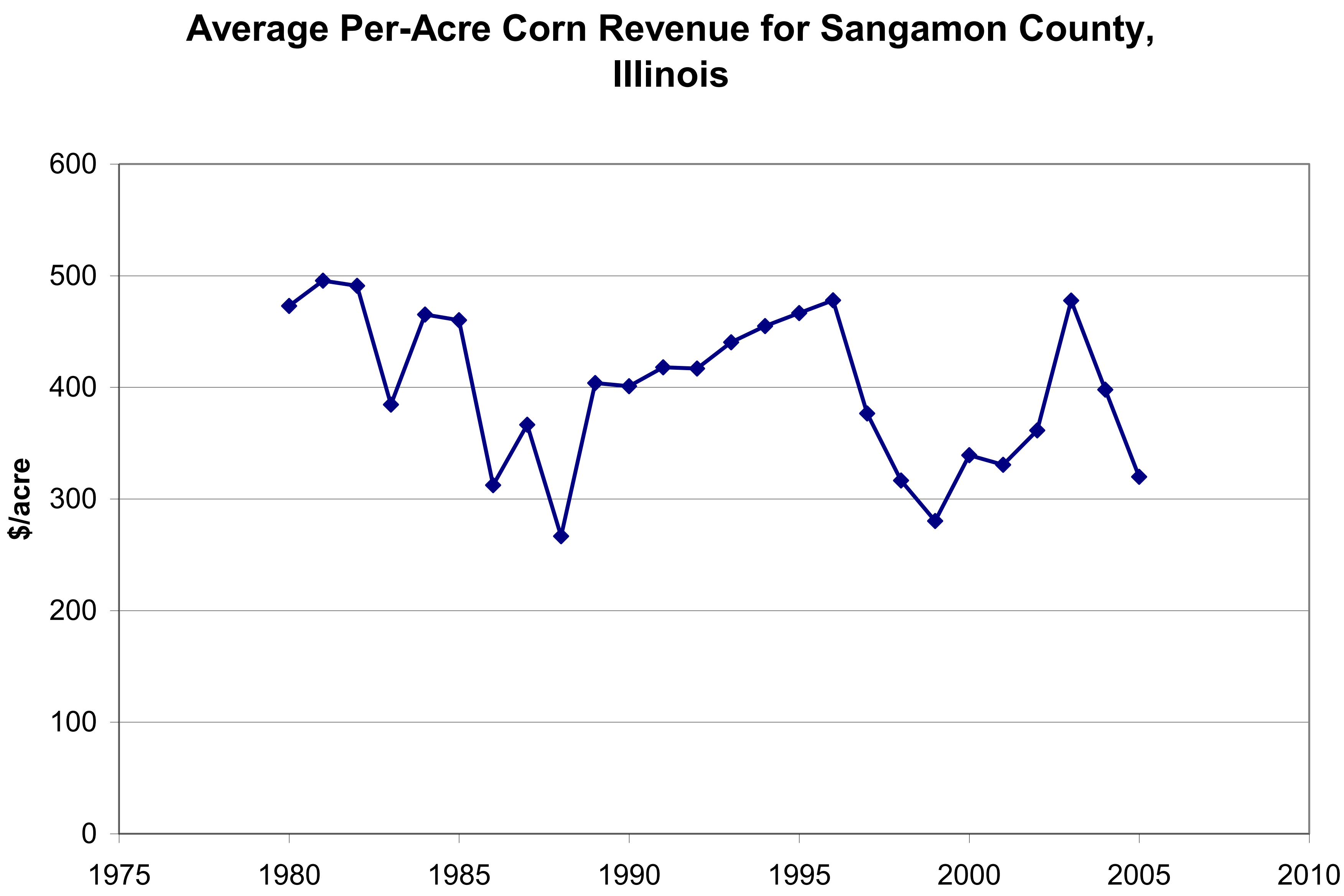
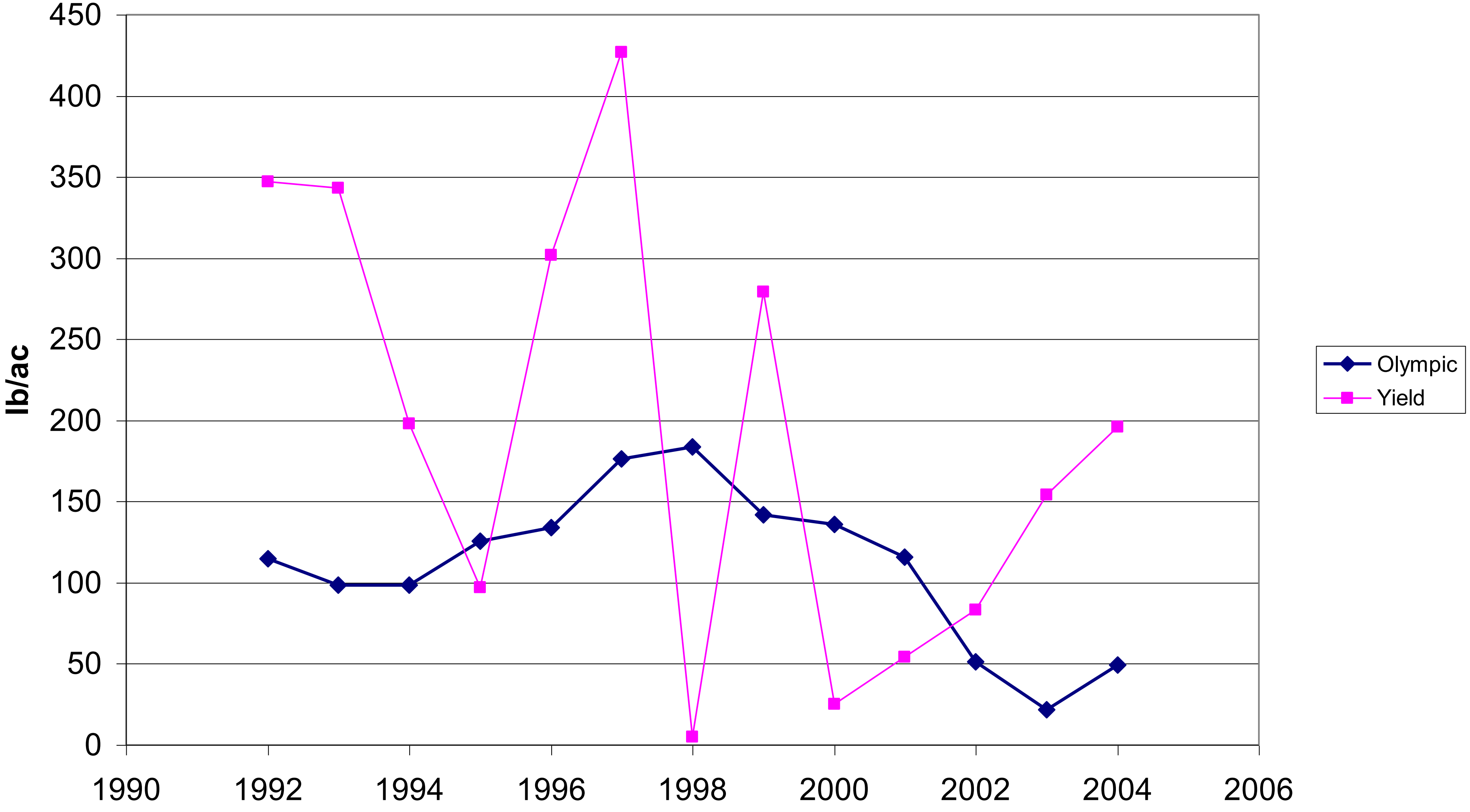
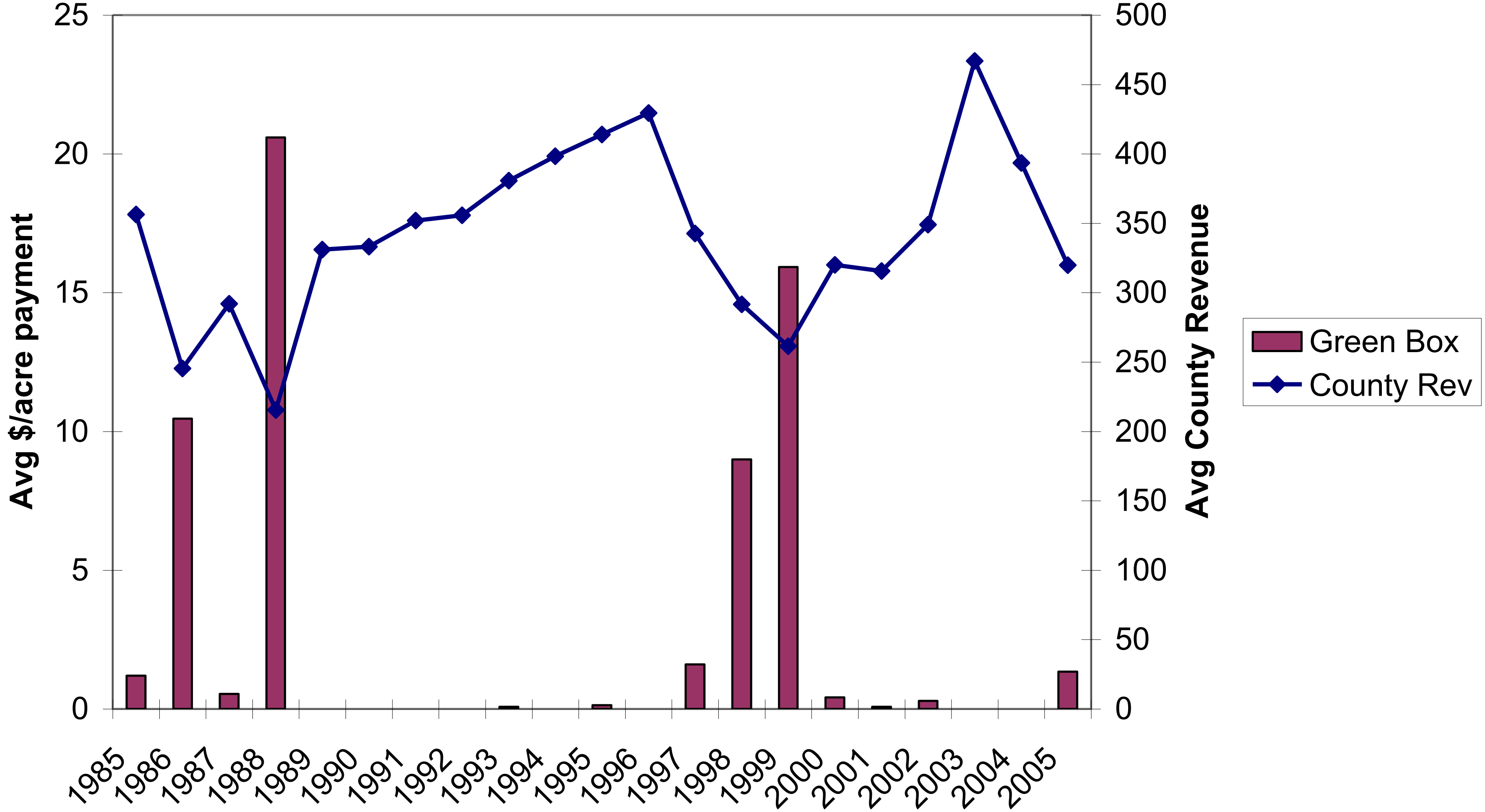

Average Per-Acre Corn Revenue for Sangamon County, Illinois
$/acre
0
100
200
300
400
500
600
1975
1980
1985
1990
1995
2000
2005
2010

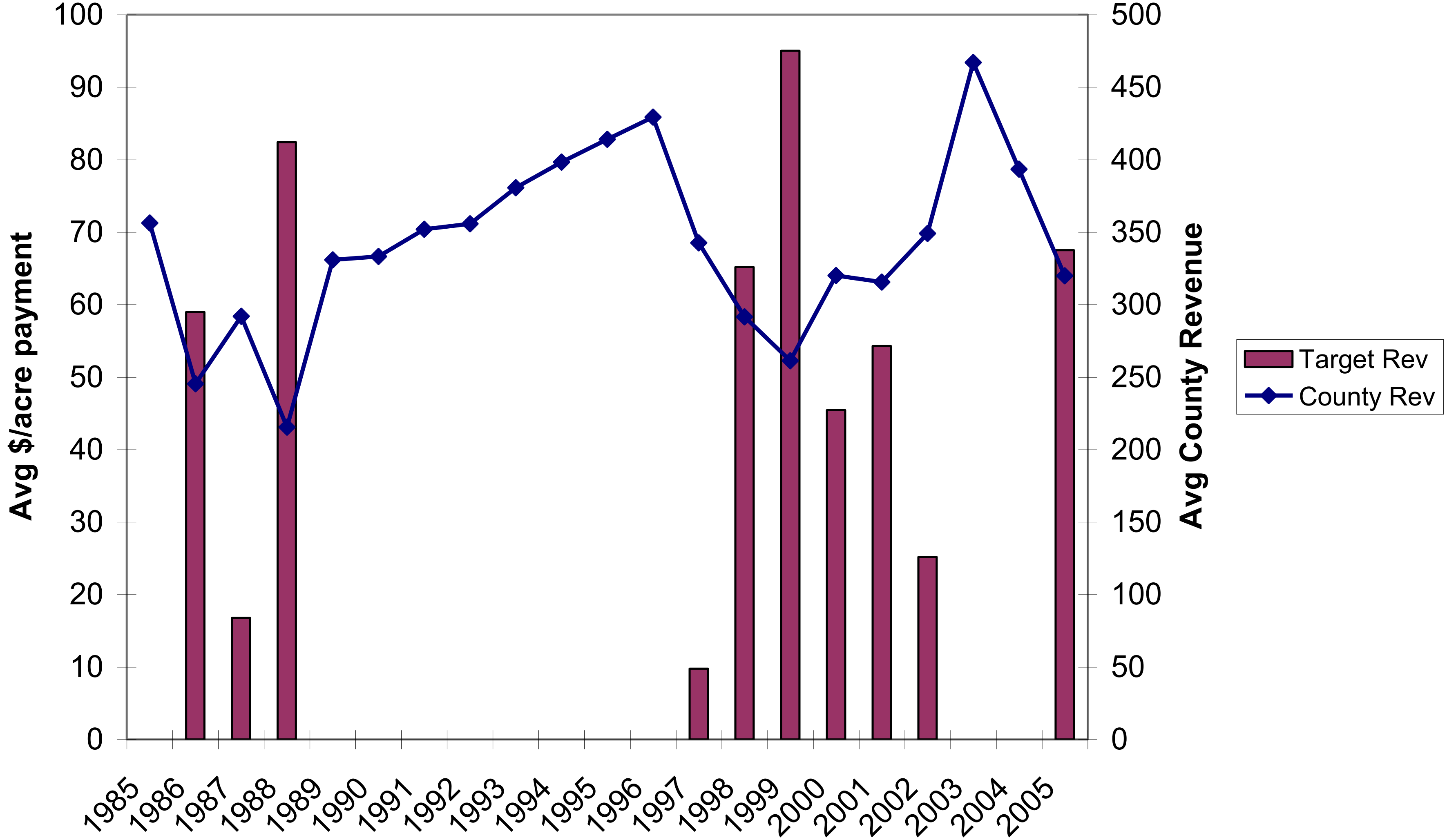
Figure 29. Cotton Yields and Reference Income in Yoakum County, TX (Worst performance of any crop in U.S.)



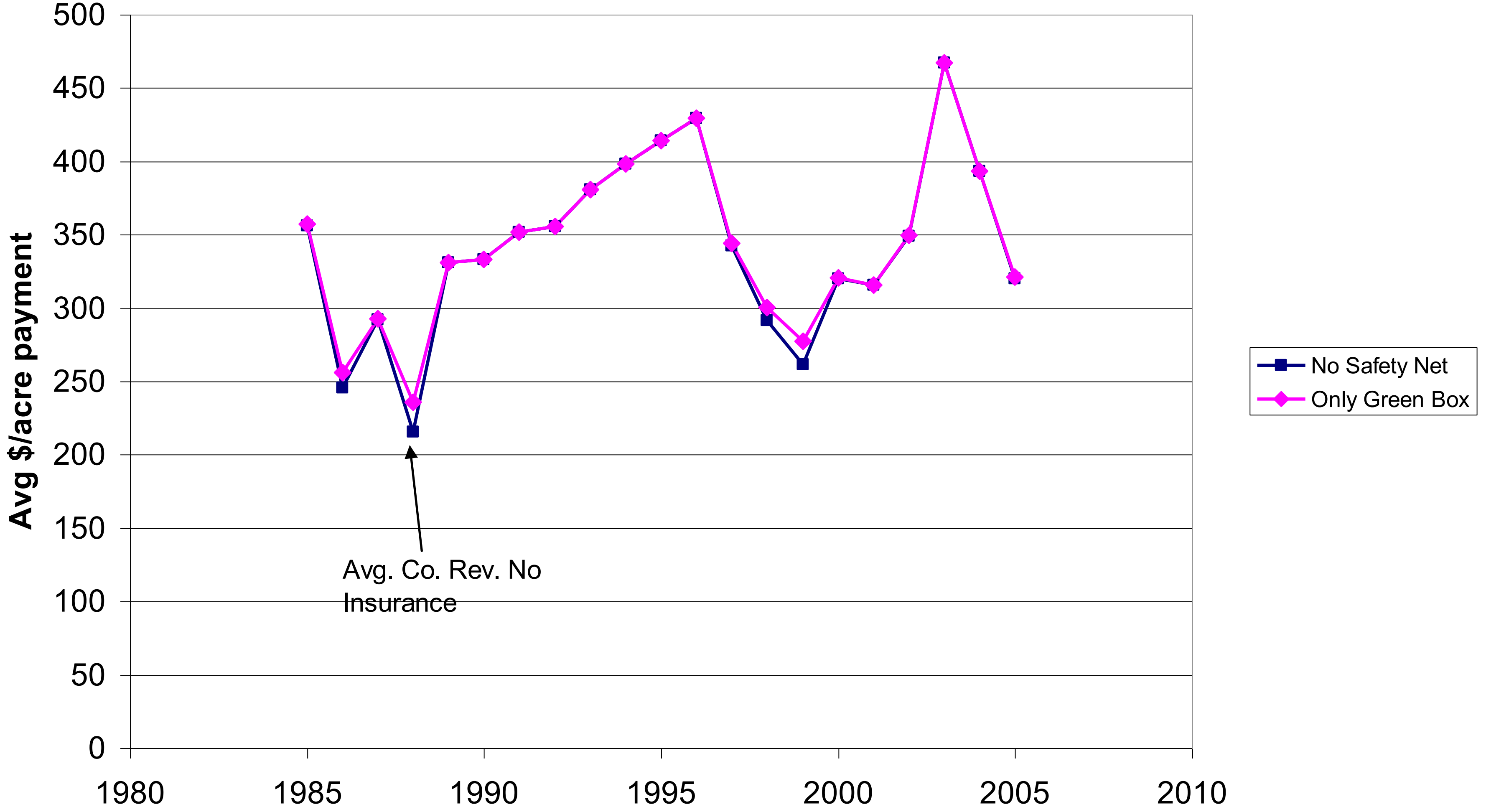
When Would Green Box Income Insurance Payments Arrive in Sangamon County?



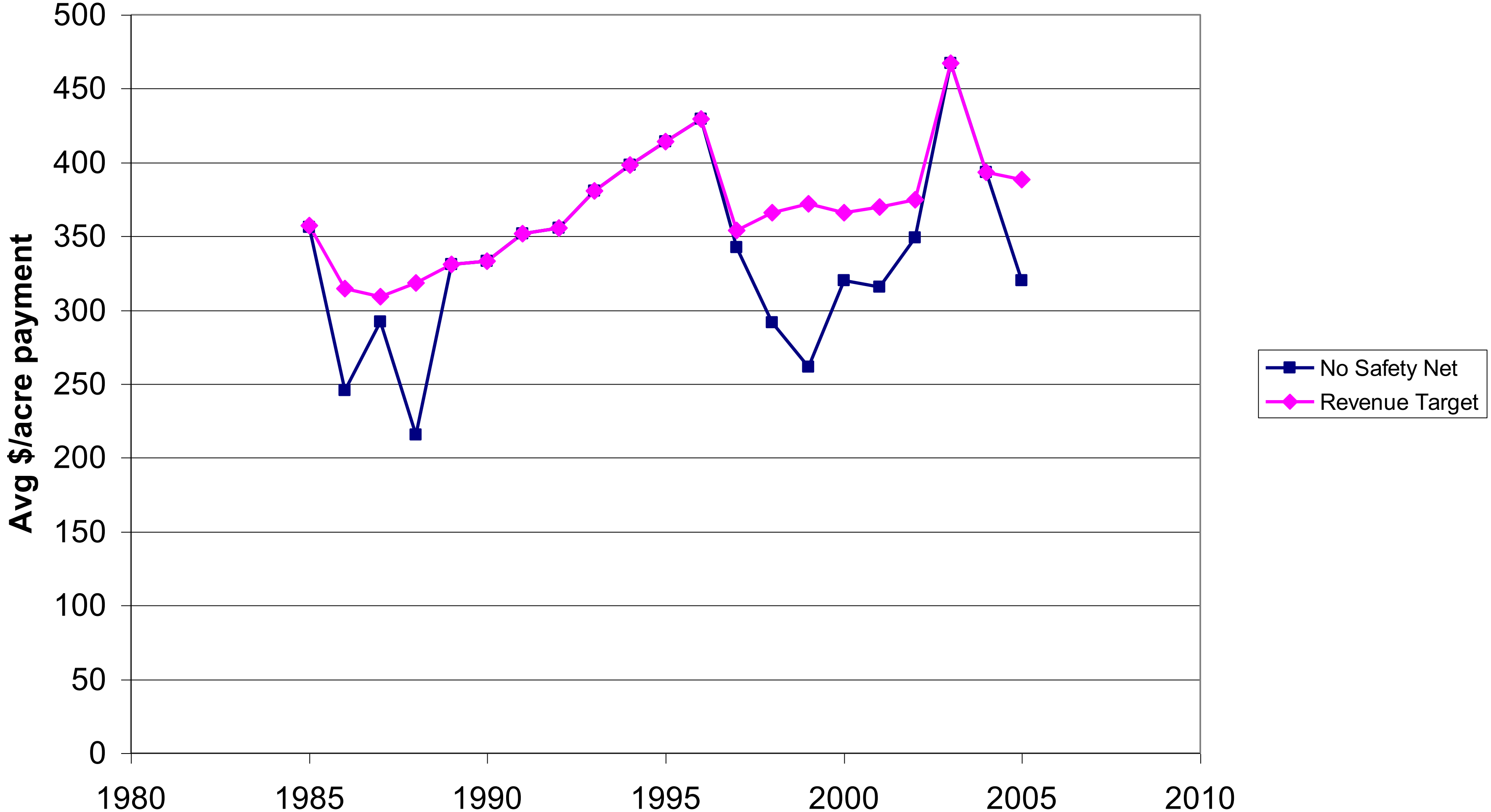
When Would 95% Target Revenue Program Pay?



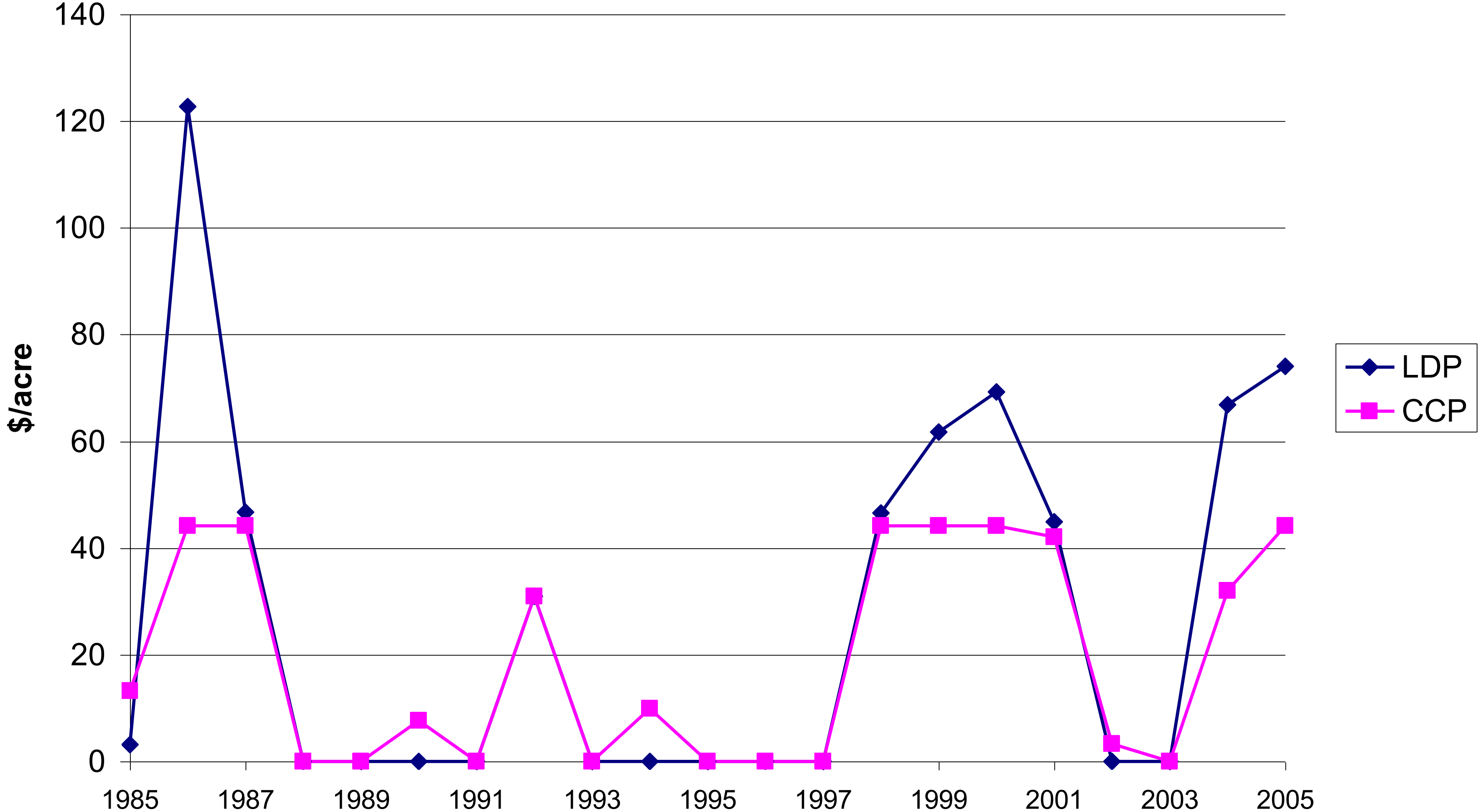
Impact of Green Box Income Insurance on Sangamon County Average Corn Revenue

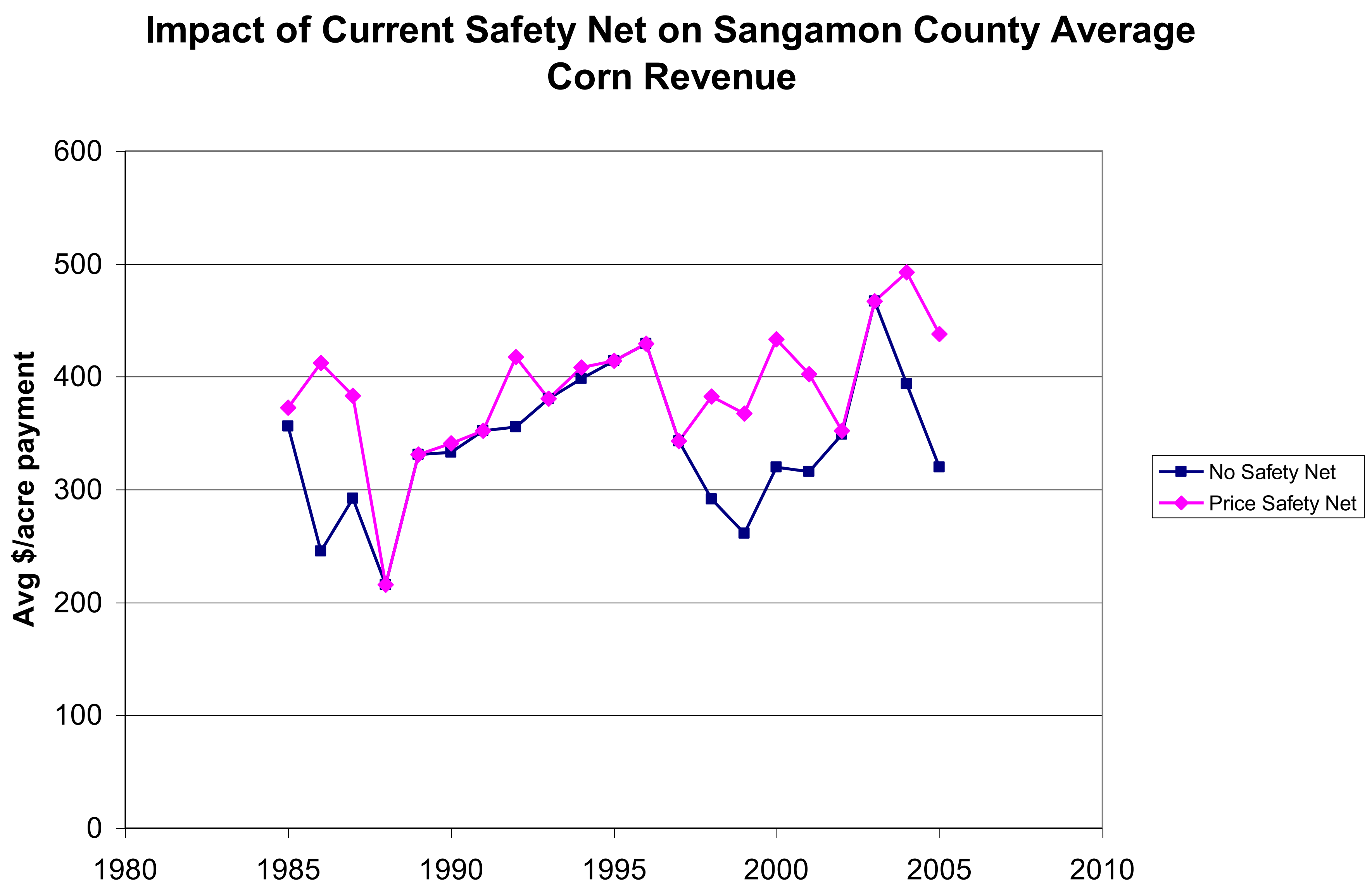


Impact of Revenue-Based Safety Net on Sangamon County Average Corn Revenue

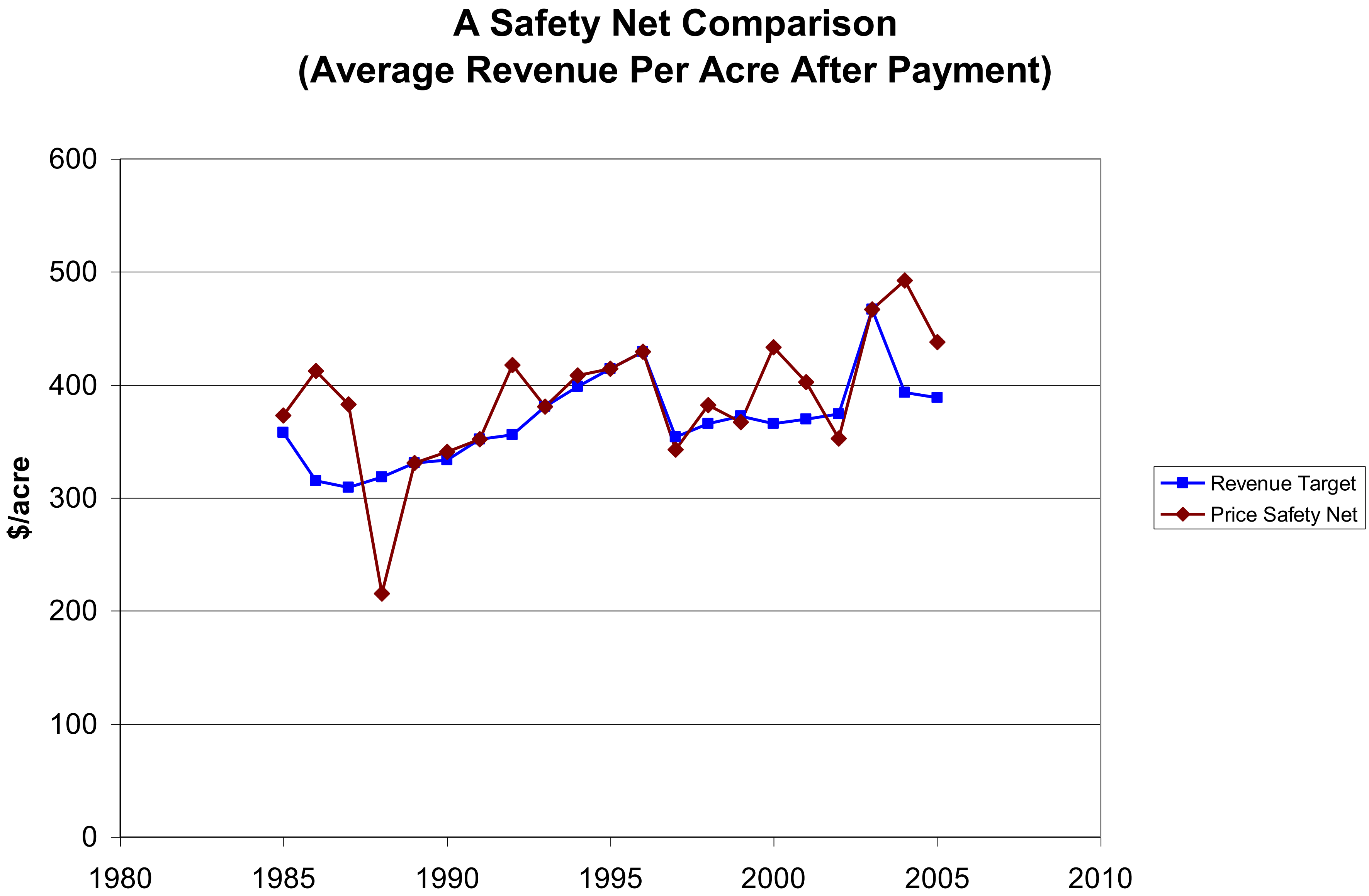


When Would Have LDP and CCP Paid Out Since 1985?

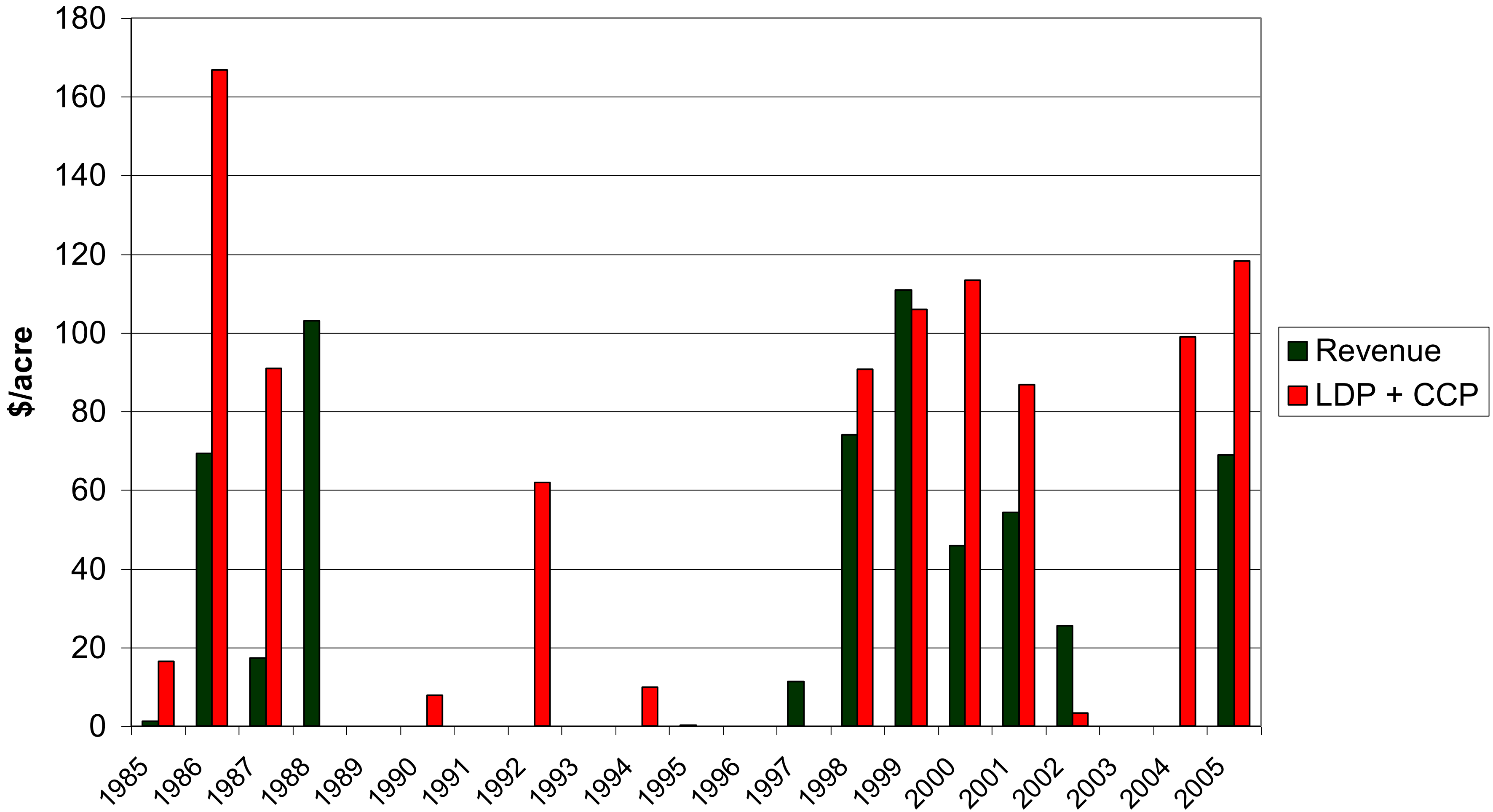


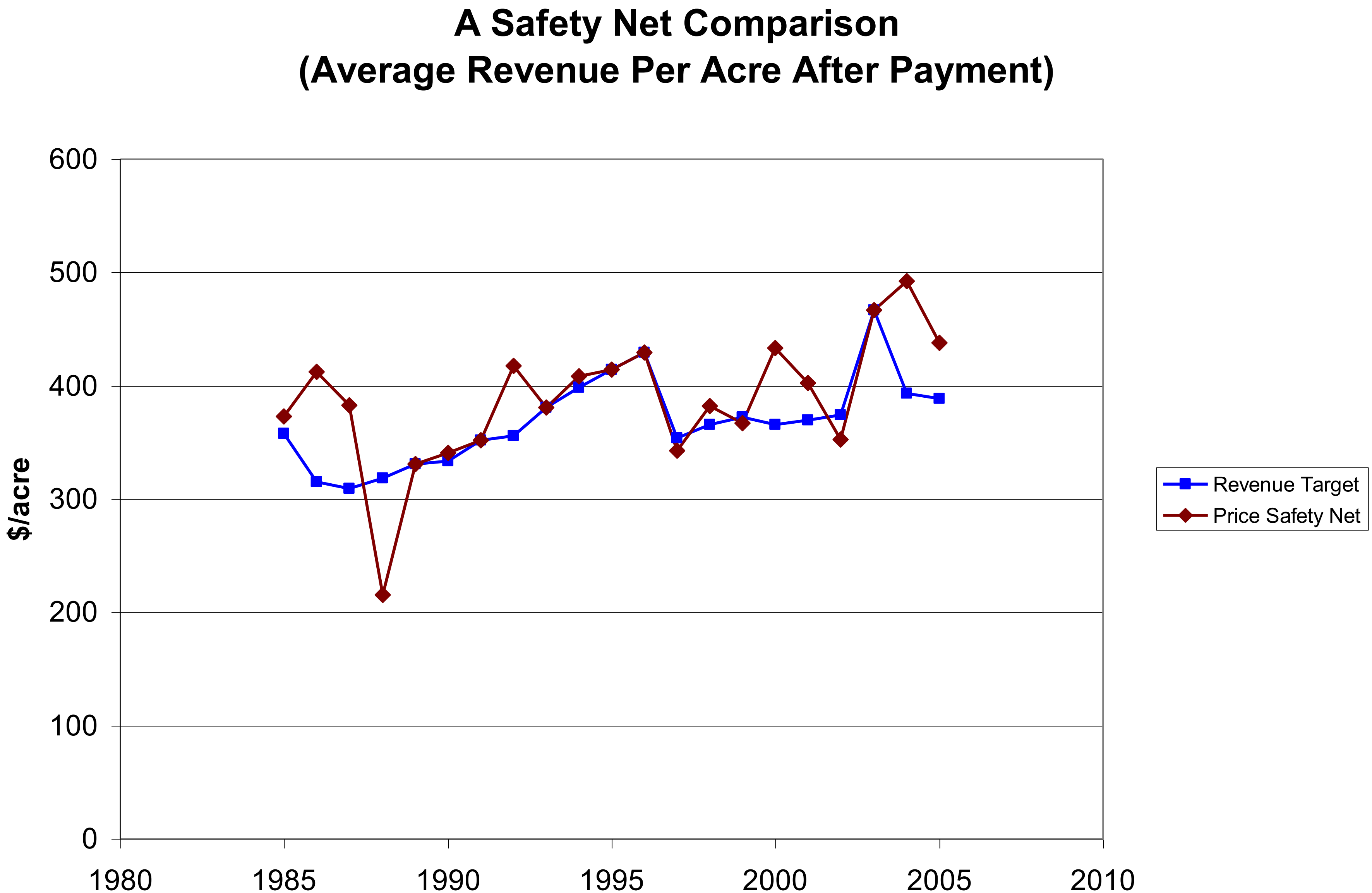


Impact of Current Safety Net on Sangamon County Average Corn Revenue
Avg $/acre payment
600
500
400
300
200
100
0
1980
1985
1990
1995
2000
2005
2010
No Safety Net
Price Safety Net


A Safety Net Comparison
(Average Revenue Per Acre After Payment)
600
500
400
300
200
100
0
$/acre
1980
1985
1990
1995
2000
2005
2010
Revenue Target
Price Safety Net

A Comparison of When Payments Would Have Been Received




A Safety Net Comparison
(Average Revenue Per Acre After Payment)
$/acre
600
500
400
300
200
100
0
1980
1985
1990
1995
2000
2005
2010
Revenue Target
Price Safety Net

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