

Changing Farm Policies: Is the Farm Income Safety Net at Risk?

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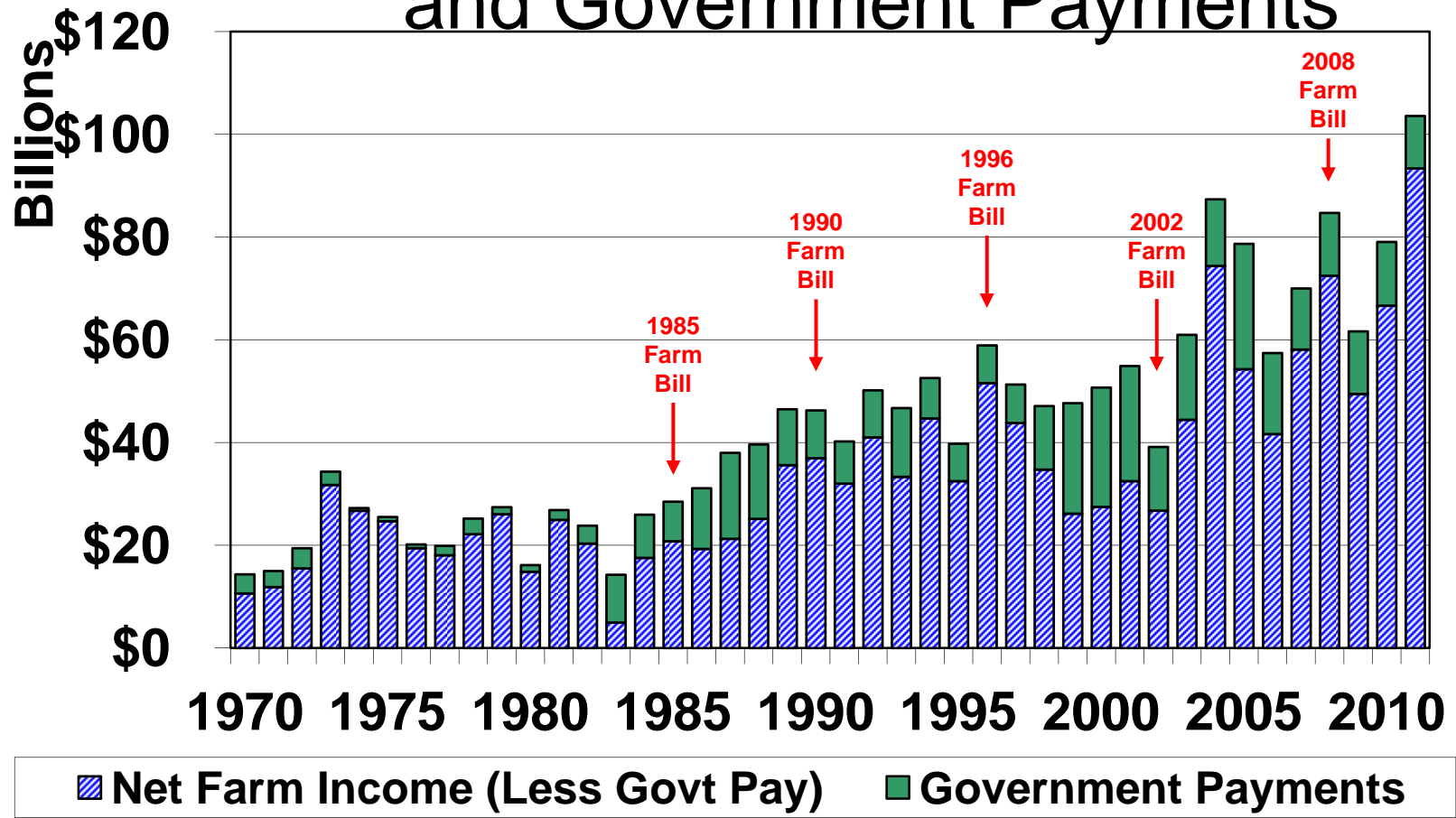
Drivers of Ag Policy

- ◆ Economy
- ◆ Budget
- ◆ Trade
- ◆ Politics



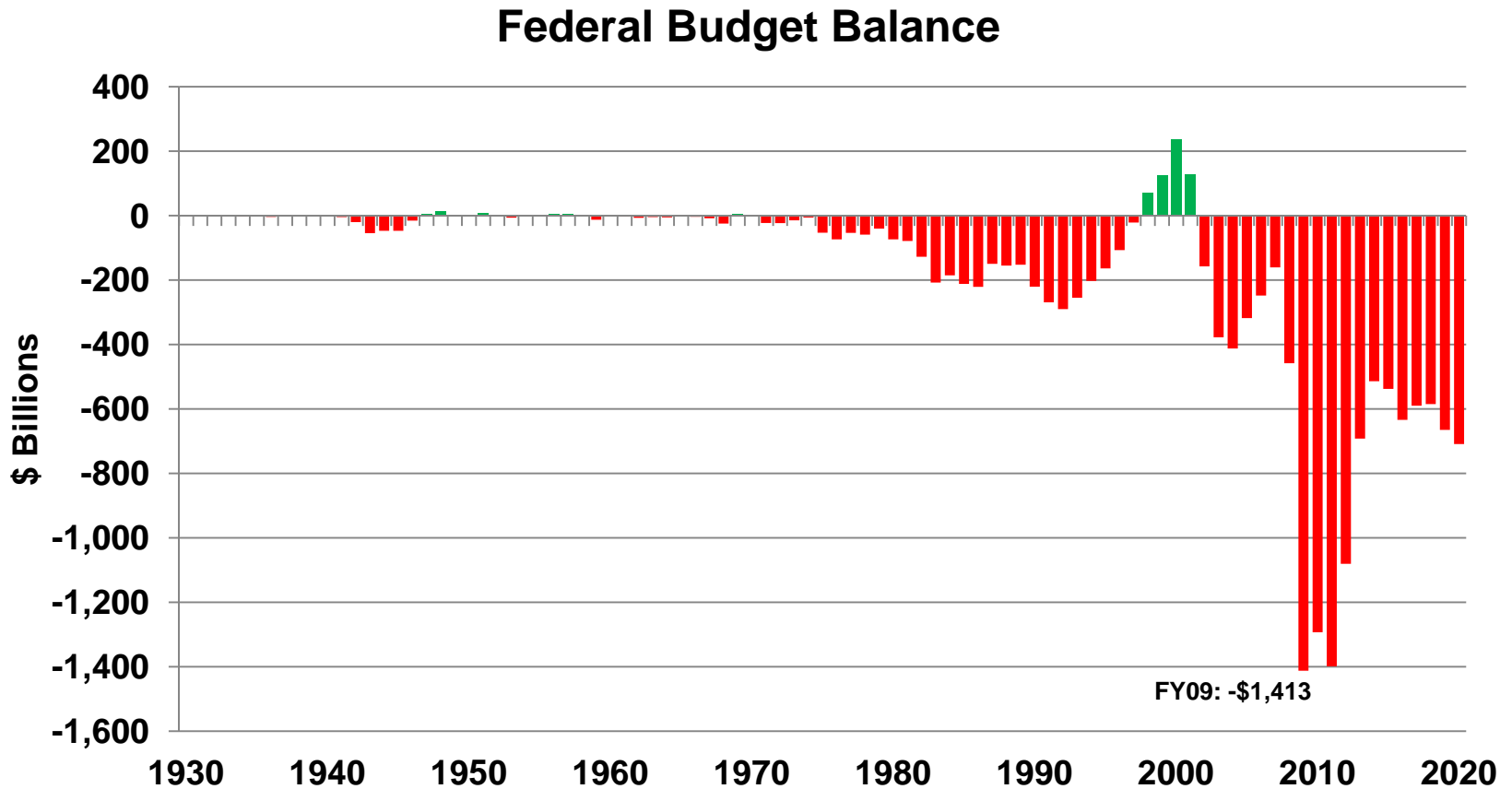
The Economic Setting

U.S. Net Farm Income and Government Payments



Source: USDA Economic Research Service

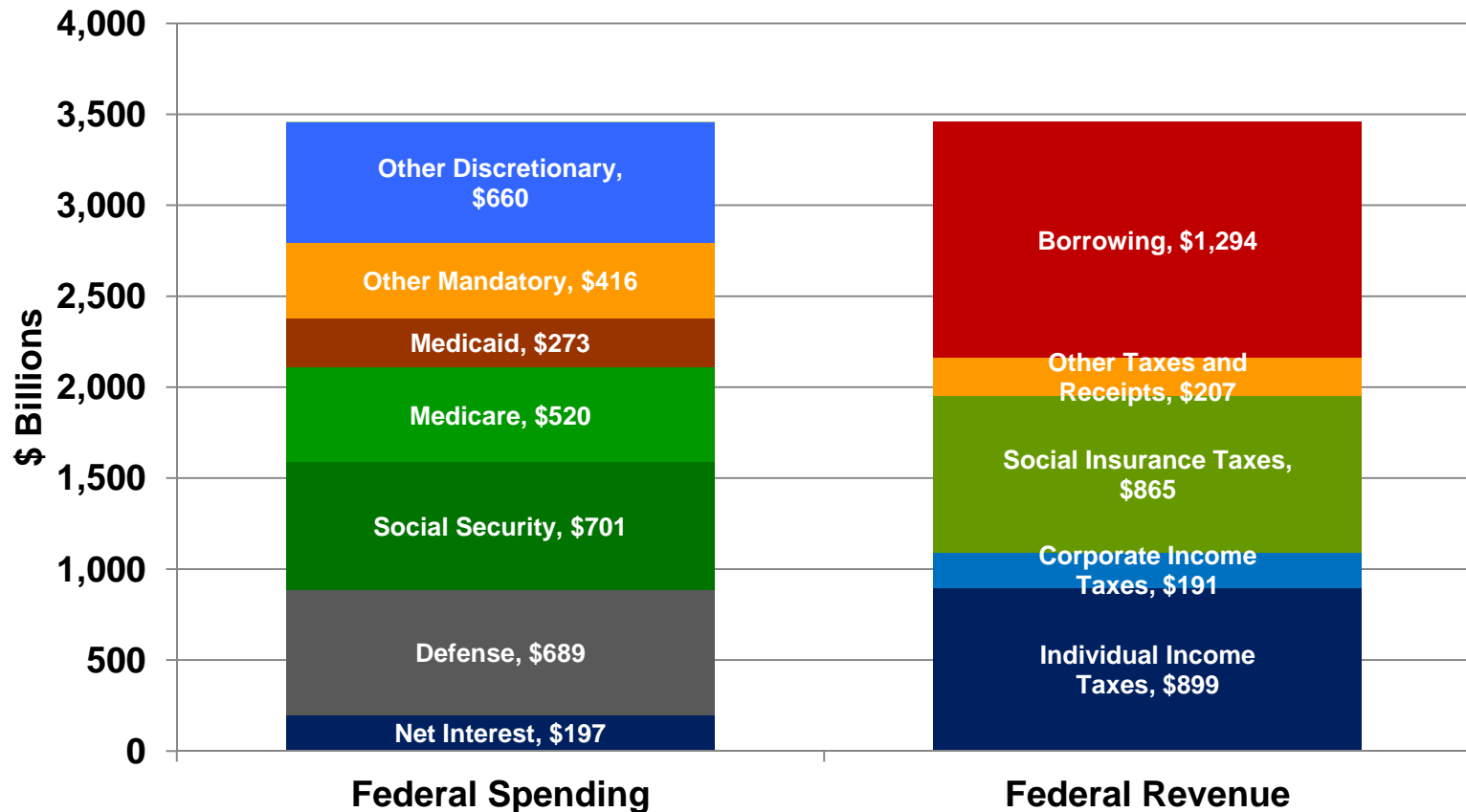
Federal Budget Challenges



Source: Congressional Budget Office, April 2011

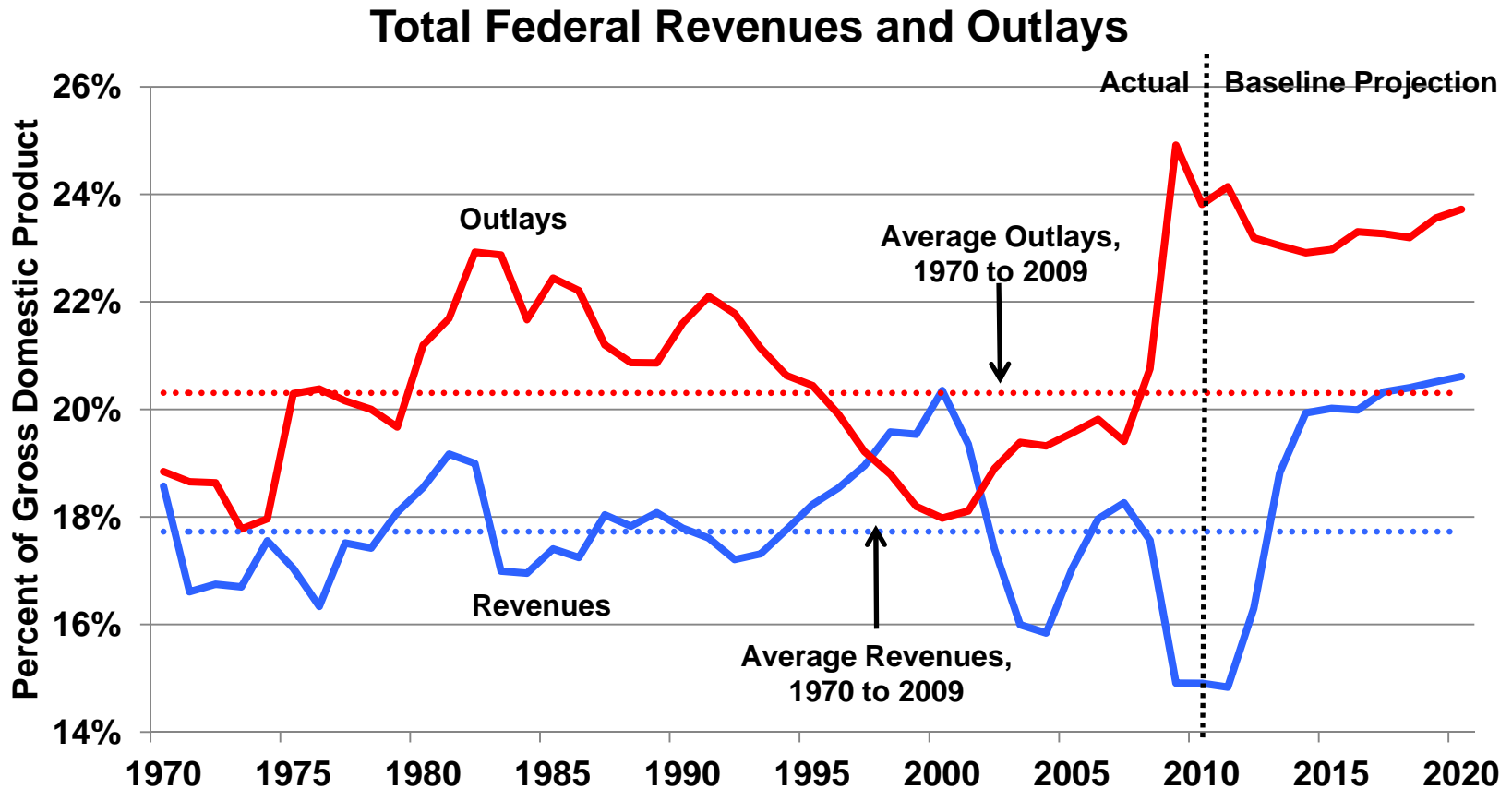
Federal Budget Challenges

Total Federal Spending and Revenue, FY 2010



Source: Congressional Budget Office, January 2011

Federal Budget Challenges



Source: Congressional Budget Office, April 2011

Recommendations to the Super Committee

From the Agriculture Committee Leadership

- ◆ Total spending cuts of \$23 billion over 10 years from baseline

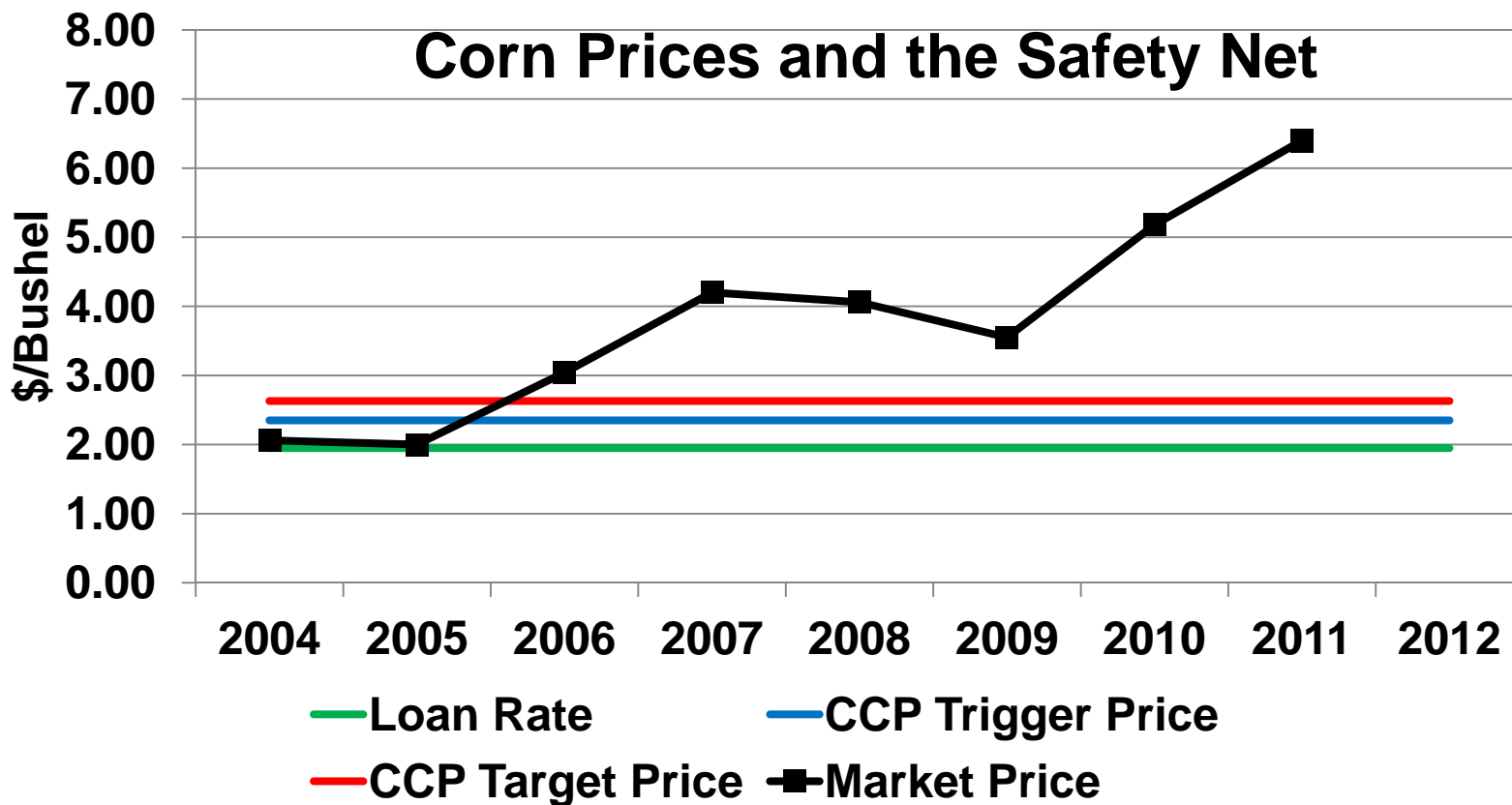
Area	Proposed Cut	2012-2021 Baseline	% Cut
Commodities	\$15 billion	\$64 billion	24%
Conservation	\$6 billion	\$63 billion	10%
Nutrition (SNAP)	\$4 billion	\$700 billion	0.6%

The 2008 Farm Bill and the Farm Income Safety Net

- ◆ Existing three-part price safety net
 - Marketing Loans and Loan Deficiency Payments
 - Counter-Cyclical Payments
 - Direct Payments
- ◆ New revenue safety net
 - Average Crop Revenue Election Program
 - Supplemental Revenue Assistance Program
- ◆ Existing crop insurance programs
 - Yield Protection
 - Revenue Protection
 - Catastrophic Coverage
 - Non-insured Assistance Program

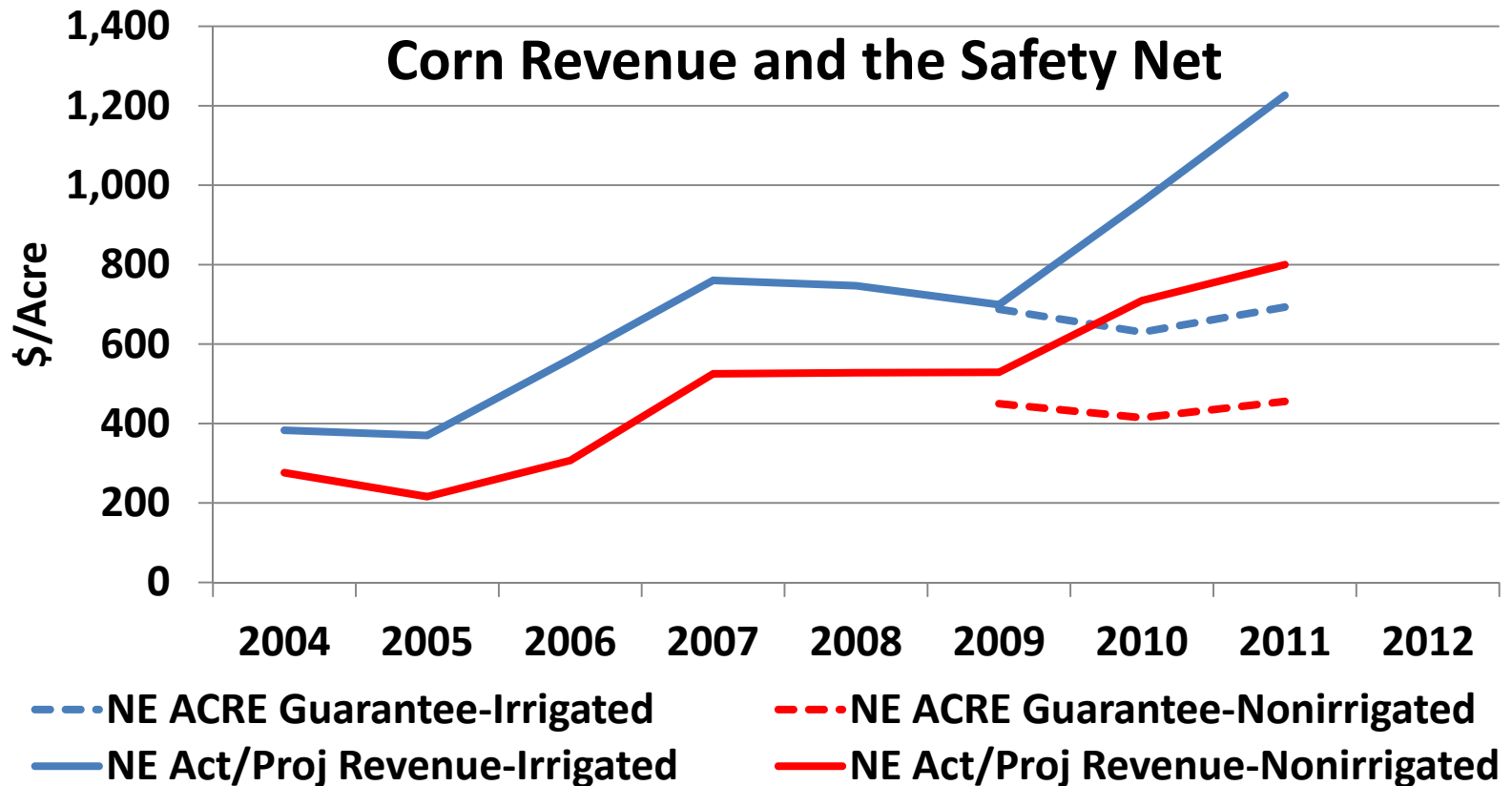
The Price-Based Safety Net

MLs and CCPs have been irrelevant since 2005



The Revenue-Based Safety Net

ACRE updated protection to 2009, but there is still substantial risk not covered by the safety net



The Rest of the Safety Net

- ◆ Direct Payments
 - Fixed, guaranteed payments have become politically unpopular with record farm income and record federal budget deficits
- ◆ SURE Disaster Assistance
 - Authorization ended in September 2011 and any continuation would require new baseline funding
- ◆ Crop Insurance
 - Has become the major component of the federal farm income safety net
 - Has also been the target of spending cuts in recent years, with potential focus on premium subsidy rates to come

The Trade Setting

WTO or not WTO?

◆ WTO negotiations

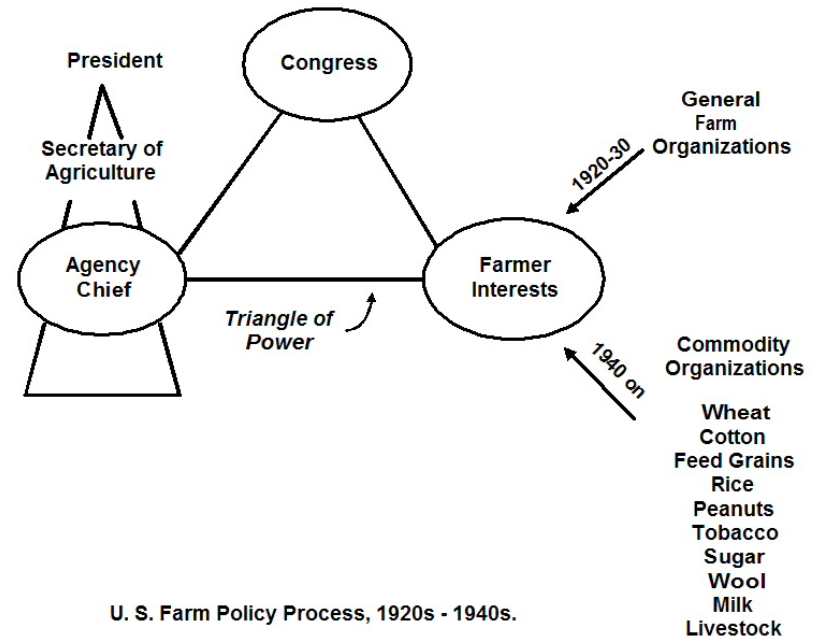
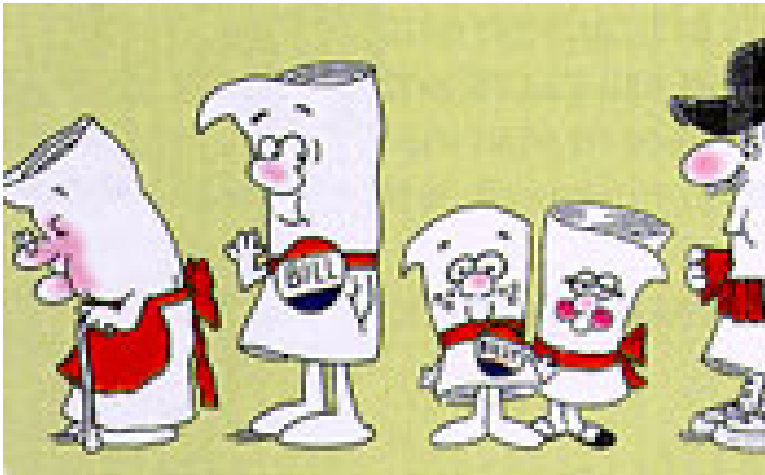
- Doha Round
 - Started in 2001
 - Negotiations continuing in 2011
- Domestic supports
- Export competition
- Market access

◆ No WTO negotiations

- WTO dispute settlement
 - Brazil-US cotton case
 - Complaint in 2002
 - Negotiated interim agreement in 2010
- Bilateral and regional trade negotiations and implementation

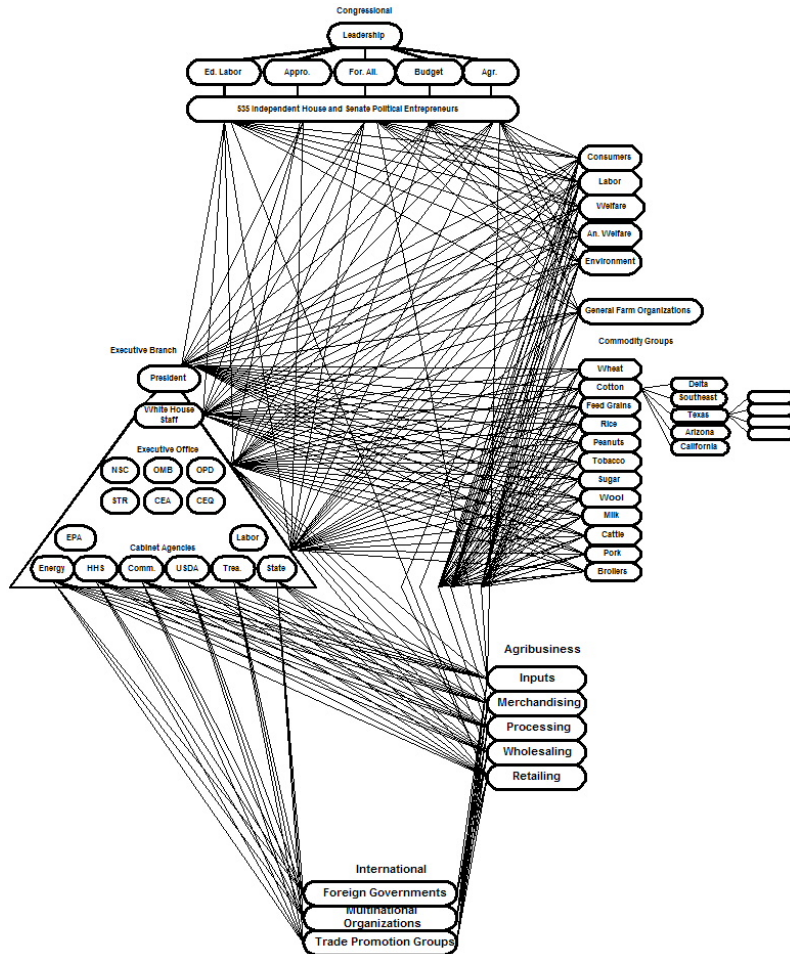
The Political Setting

The Policy Development Process



The Political Setting

The Policy Development Process



U.S. Farm, Food, and Trade Policy Process, 1990 - 2000.

Source: Schweikhardt, 2007

Farm Bill Goals

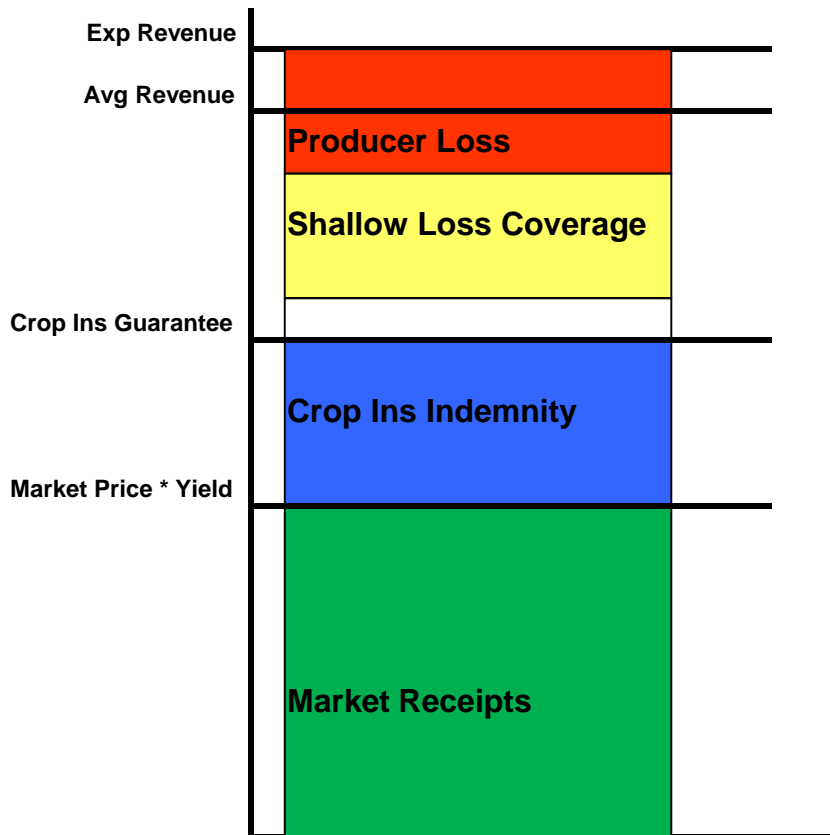
- ◆ A continued evolution toward risk management
 - 1930s – 1996
 - Supply control and price support
 - 1970s – present
 - Income support
 - 1980s – present
 - Risk management

Fundamental Questions

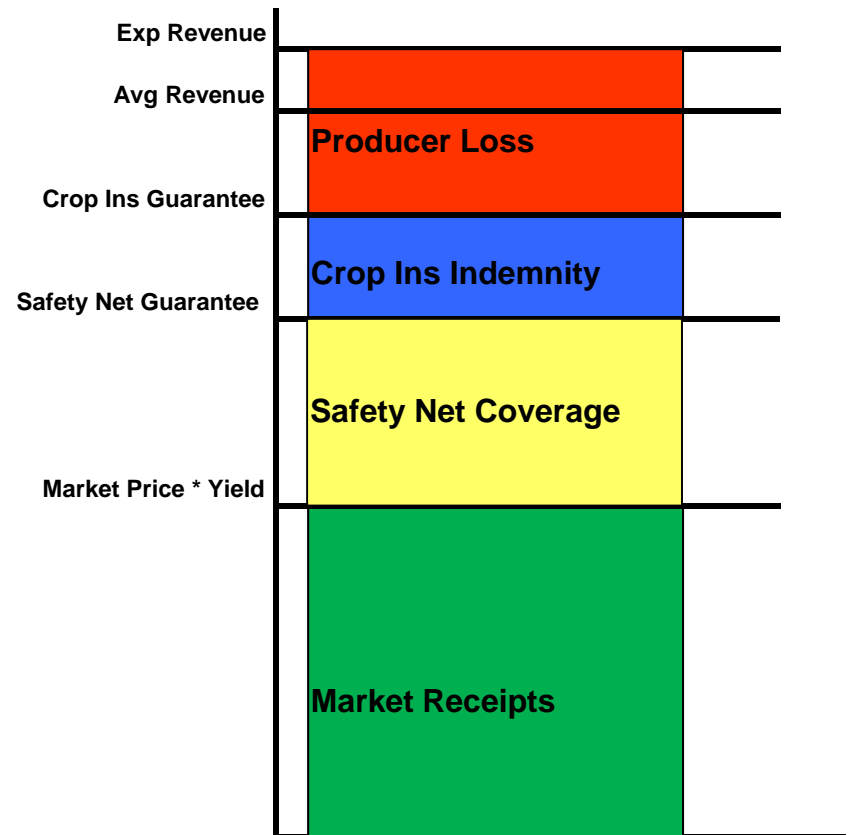
- ◆ Shallow loss coverage vs. safety net coverage
- ◆ Systemic risk vs. idiosyncratic risk
- ◆ Mechanics of revenue guarantee
 - Geography
 - Average guarantee
 - Protection level
 - Payment cap

Understanding Shallow Loss Coverage vs. Safety Net Coverage

Shallow Loss Coverage



Safety Net Coverage



Farm Bill Proposals

Alternative	Guarantee Geography	Guarantee Level	Payment Cap	Payment Acres
No Program	-	-	-	-
ACRE: State	State	90%	25% of Guar.	85%
ARRM: District	District	90%	15% of Guar.	85%
SRRP: County	County	70%	100% of Guar	85%
ARC: Farm	Farm	87%	12% of Oly. Avg. Rev.	60%

Risk Management Decision-Making and the Farm Program

- ◆ Commodity program safety net has evolved over time
 - Price support and supply control
 - Income support tied to price and revenue
 - Risk management
- ◆ Expected future program directions
 - Crop insurance as the foundation
 - Revenue safety net to complement crop insurance
 - No direct payments
 - Irrelevant marketing loan?

Managing Risk with the Farm Income Safety Net

“A Multiplicity of Confused Concepts”

Scope of Risk Protection	Farm Level	Area Level	National Level
Price	<p style="text-align: center;">← Hedging →</p>		
Revenue	RP/HPE DP RP	AGR SURE GRIP/H	GRIP ACRE
Production	YP CAT NAP	GRP PRF	

Risk Management Decision-Making and the Farm Program

