The Search For A Better Safety Net Continues

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It's that time of year again. Yes, farmers are gearing up their combines for the annual fall harvest. But as this long, hot summer starts to fade, members of each state farm and commodity organization are also preparing for their annual meetings and deciding what they'd like to see changed in their policy books. One of the items that comes up year after year is the status of the farm safety net.

Ever since federal farm programs were first developed in the 1930's, lawmakers have fiddled with trying to build something better and longer-lasting. We've had farm programs trying to manage supplies, cover the cost of production and support prices. In more recent years, the focus has been on managing both yield and revenue risks. Along the way, we've spent a few billions on ad hoc disaster payments and we've had to learn more acronyms than you can hardly count. (PIK, AMTA, CRP, CCP, ACRE, etc.) . So what will be next as policy makers prepare for the 2012 Farm Bill?

There are a number of options under consideration, ranging from minor tweaks to elimination of entire programs. Delegates attending the recent Iowa Farm Bureau meeting voted to get rid the approximately $5 billion spent on direct payments annually if those funds could be invested in a revenue protection product.

"Voting delegates discussed a wide range of options and acknowledged regional differences, but agreed this Farm Bill must provide a dependable, fiscally responsible safety net for all farmers," said IFB President Craig Lang in a press release. "Instead of direct payments, we agreed the money should be used to enhance a sound revenue insurance program, risk management and fair trade," said Lang. Their policy also calls for the ACRE program to be based on county, rather than state, yields and revenue – and to include revenue protection for livestock as well.

Iowa Farm Bureau's new policy is generating some headlines, but you will likely hear lively debate this fall as farm groups consider changes in several of the major programs which are currently in place. Here's a preview of those debates.

Direct payments. These fixed, annual payments were first established in 1996 (Freedom to Farm Bill) and were pitched as a way to gradually transition farmers away from the previous system of target prices and deficiency payments. Direct payments have long come under fire from non-farm interests because they are paid regardless of whether or not anything is produced on the land. Critics also point out that direct payments can inflate land prices and rental rates because at least a portion of the payments accrue to the landlord.

Yet, many landowners say that direct payments give them stability, year-in and year-out, that they might not otherwise have for planning and financing. Their lenders love them perhaps more than they do. Another plus: because direct payments are not influenced by current production and prices, they are well-accepted by the World Trade Organization (WTO) and not considered to be "trade-distorting."

ACRE: Introduced as part of the 2008 Farm Bill debate, the Average Crop Revenue Election (ACRE) program was designed to protect farmers against revenue losses, regardless of whether the loss was a result of price and/or yield. The ACRE program pays when two conditions are met: the state-level revenue for a crop falls below a guaranteed level and when a farmer actually loses revenue on a farm.

The handful of farmers who did participate in ACRE are likely to benefit handsomely. For example, wheat growers are likely to receive almost $90/acre in Illinois and $70/acre in Missouri, says Troy Dumler, Extension Agricultural Economist, Kansas State University. For corn, Texas non-irrigated growers are projected to receive about $70/acre and in Oklahoma, payments could exceed $140/acre. In time, supporters believe that more growers will "warm" to ACRE and the risk management benefits.

Yet, critics complain that the program is too complex and cumbersome, which they say explains why only 8 percent of the total number of eligible farms elected to participate in ACRE for 2009. To participate, you had to sign up for all program years (2008-2012) rather than just one year. It's a tough sell to landlords, who may not be accustomed or willing to make a long-term commitment. Participants also had to forgo 20 percent of their direct payments and and would be eligible for loan rates which are reduced by 30 percent. Some would like to see the program be annual, rather than multi-year. Others want to see the state-based trigger changed to a county-based trigger, although it would be an expensive proposition.

SURE: The Supplemental Revenue Assistance Payments (SURE) was included in the 2008 Farm Bill as a way to finally put an end to "ad hoc" disaster programs. It compensates growers who farm in or border a county designated as an agricultural disaster area for a portion of crop losses that are not eligible for payments under the crop insurance program or the Non-insured crop disaster assistance program (NAP). Payment calculations are based on a farmer's revenue from all crops in all counties (including farm program and crop insurance payments) compared to a guaranteed level based on expected yields and prices. If the actual level is less than the guarantee, a payment is made, based on 60% of the difference between the two.

Critics say the payments are too little, too late. Because the law requires the crop year to be finished so that the season-average farm price can be determined, payments may be delayed for months until after the disaster occurred. Southern farmers, say SURE doesn't work for them, and have been pushing Senate Agriculture Committee Chairman Blanche Lincoln (D-AR) for another $1.5 billion in ad hoc disaster assistance – the same type that SURE advocates pledged would no longer be necessary. The White House promised Lincoln that those funds would be forthcoming, although Secretary Vilsack recently said that he's still not sure how his agency will find and administer the aid.

Crop and livestock insurance. One of the most widely used and accepted form of price and yield risk management, crop insurance covered over 265 million acres last year, according to USDA's Risk Management Agency. The Noninsured crop disaster assistance program (NAP) fills in some of the gaps in counties where crop insurance is not offered, but RMA is making a major push to expand coverage to historically underserved areas. In recent years, new policies have been developed to cover livestock and dairy producers from individual loss or gross margin. Other policies, such as Adjusted Gross Revenue (AGR) offer revenue protection for the whole farm.

Growers have the freedom to choose the type and level of coverage, and most growers report that insurance policies are relatively easy to understand and use. Delivered by the private sector as part of a private/public partnership, growers usually don't have to wade through complex program calculations or the federal bureacracy to get paid.

However, growers – especially in the South – complain that crop insurance needs to be substantially improved for cotton and rice. Non-farm ritics charge that policies are heavily subsidized by the federal government. In addition, the Federal Crop Insurance Corporation (FCIC) pays private insurance companies to administer the program and underwrites a large share of the loss risk – although those payments were cut by $6 billion/year as part of an industry-wide renegotiation this year.

Making changes in any of these programs will likely have budget implications, and that's where the rubber will really start meeting the road. Lawmakers have already signalled that the next farm bill is likely to be a baseline bill, which means there will not be any "new" money added for programs. So before anyone suggests any changes to the farm safety net, he or she will have to be prepared to say where the money is going to come from. "Show me the money" could become the commonly used phrase in the next farm bill debate. Δ

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