

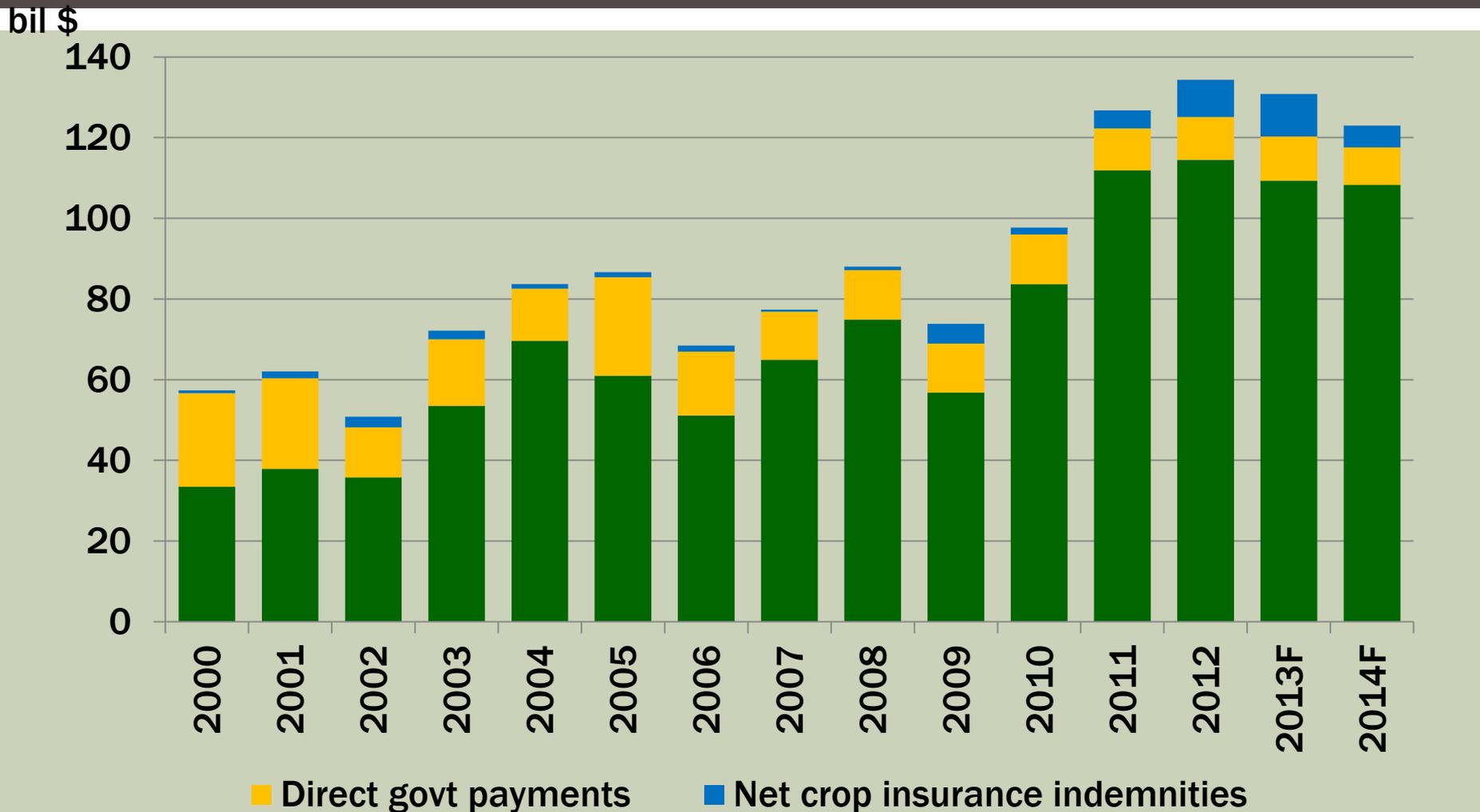
THE FARM SAFETY NET

Joe
Glauber

*Chief
Economist,
USDA*

*17 November
2014*

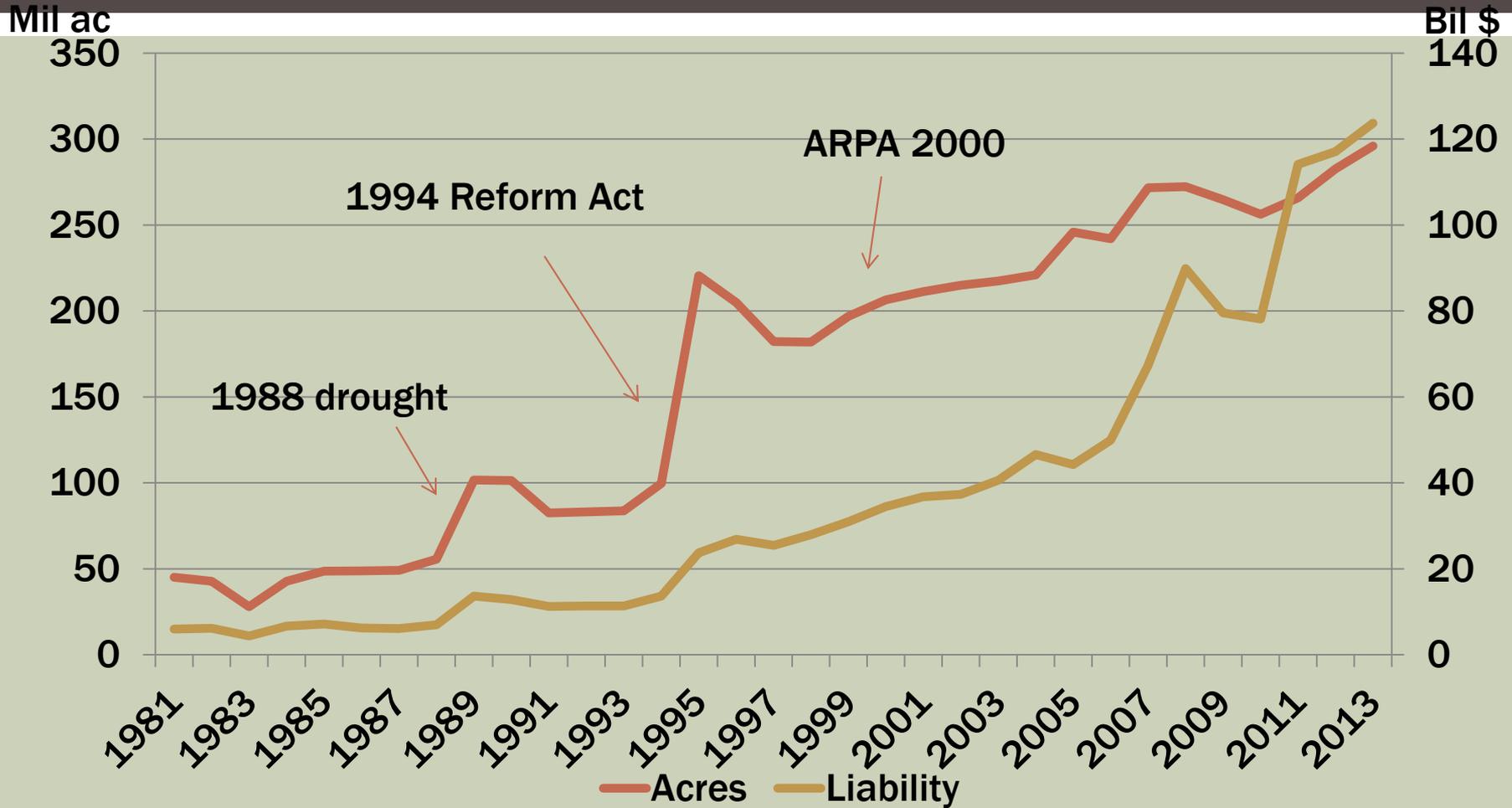
GOVERNMENT PAYMENTS REMAIN IMPORTANT COMPONENT OF NET CASH INCOME





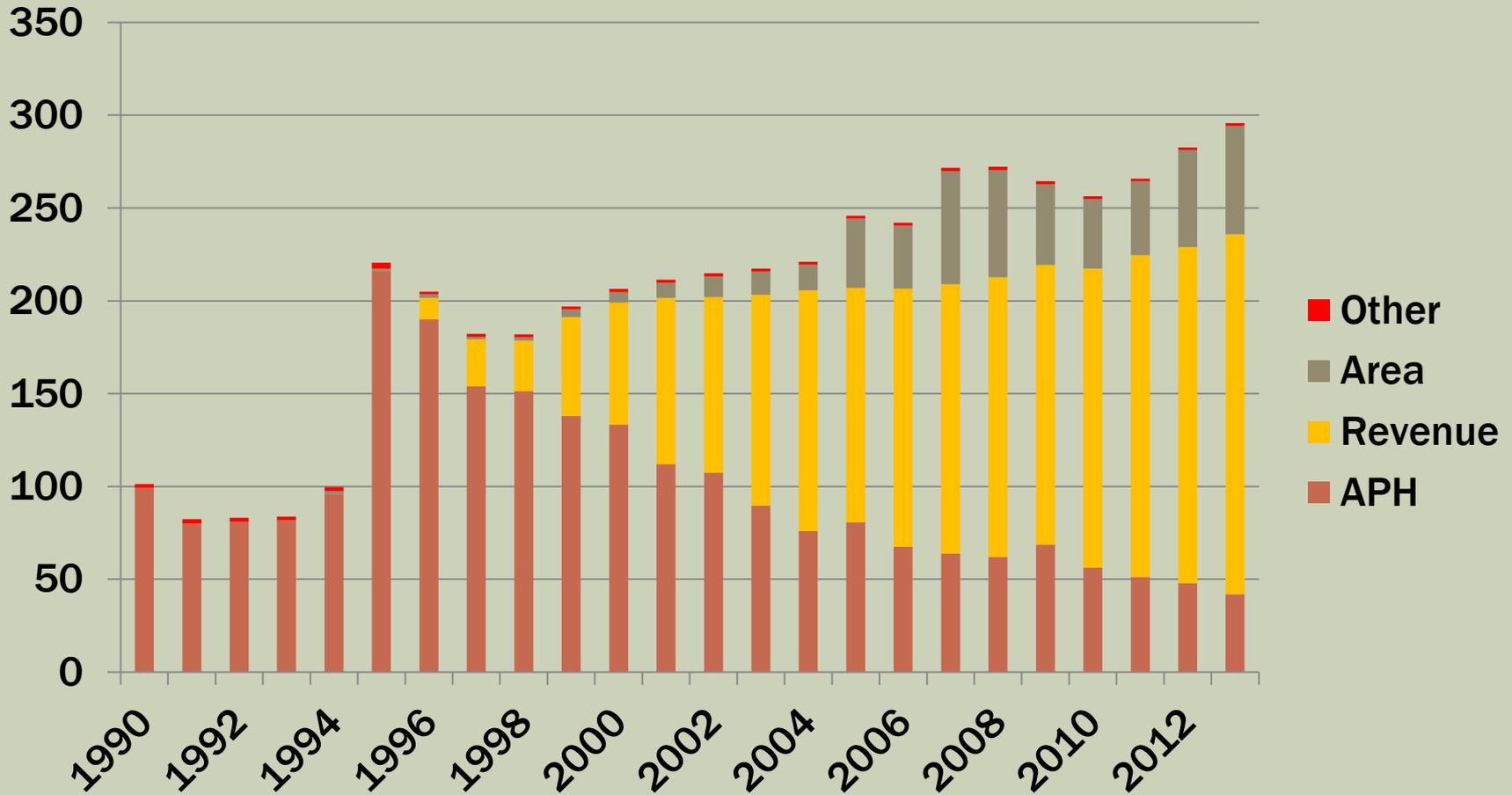
CROP INSURANCE

GROWTH IN THE CROP INSURANCE PROGRAM

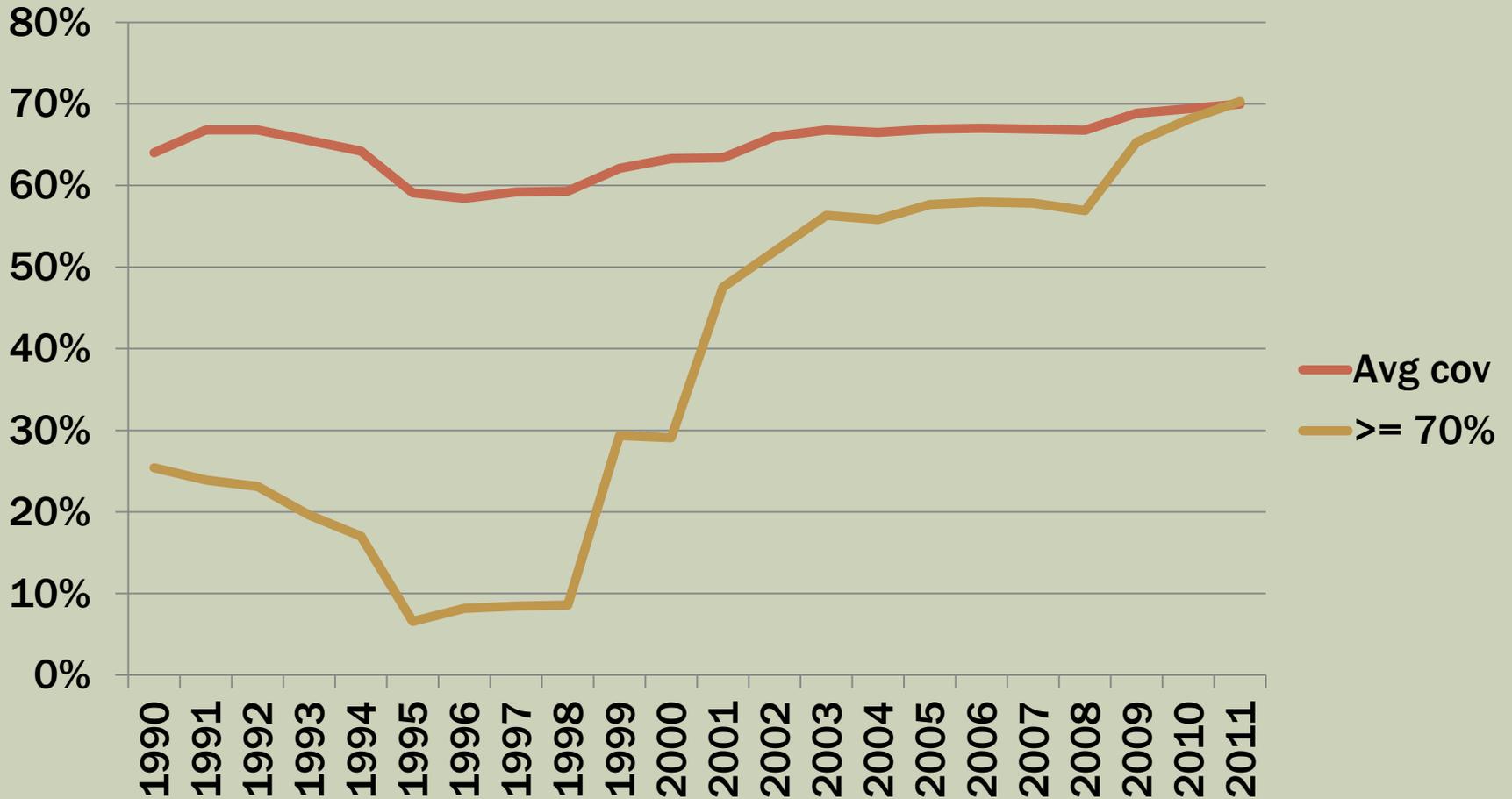


GROWTH IN REVENUE INSURANCE AND AREA PLANS

Mil acres

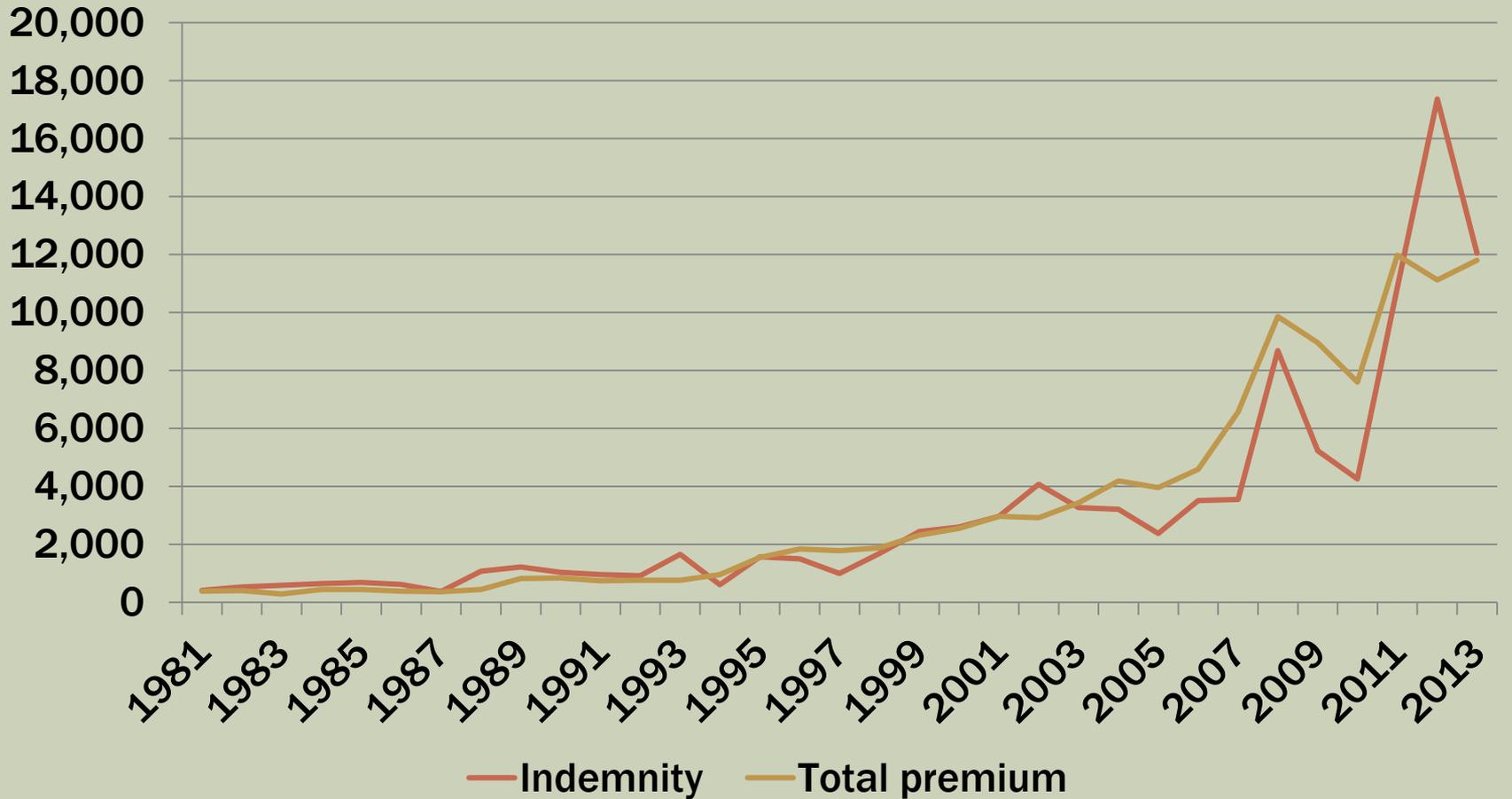


AVERAGE COVERAGE LEVELS

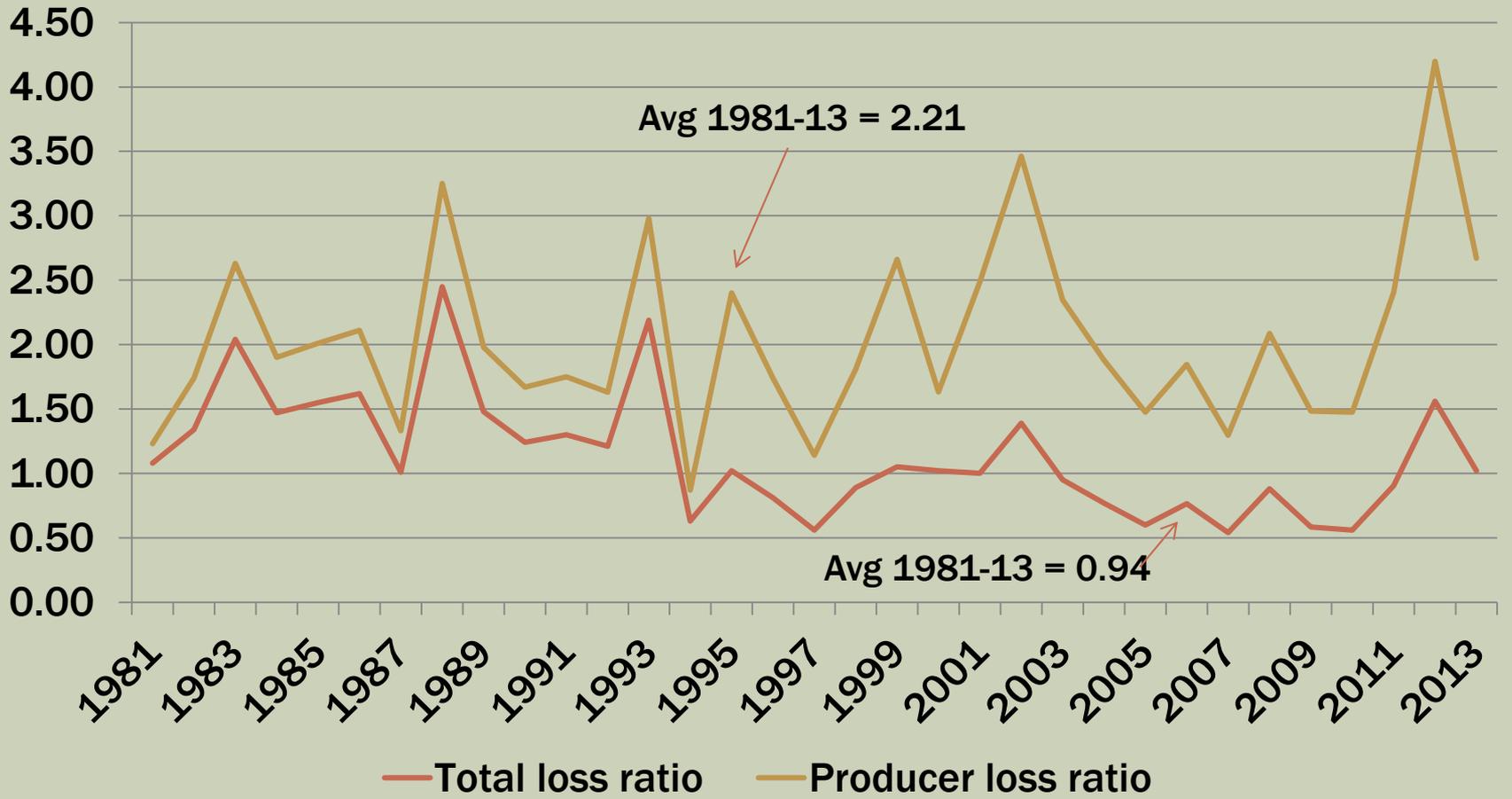


CROP INSURANCE PREMIUMS AND INDEMNITIES

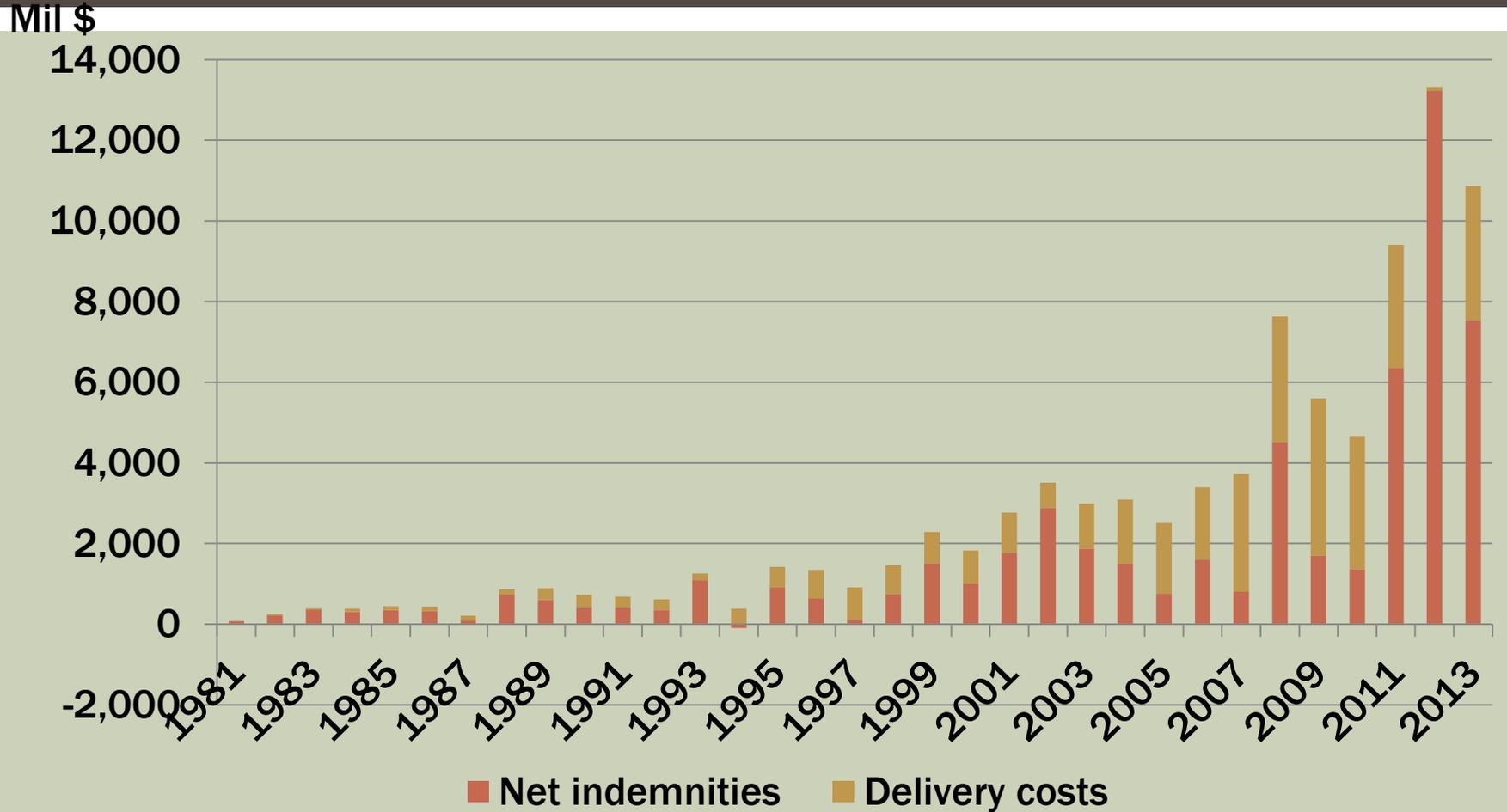
Mil \$



LOSS RATIOS



CROP INSURANCE PROGRAM COSTS





2014 FARM BILL

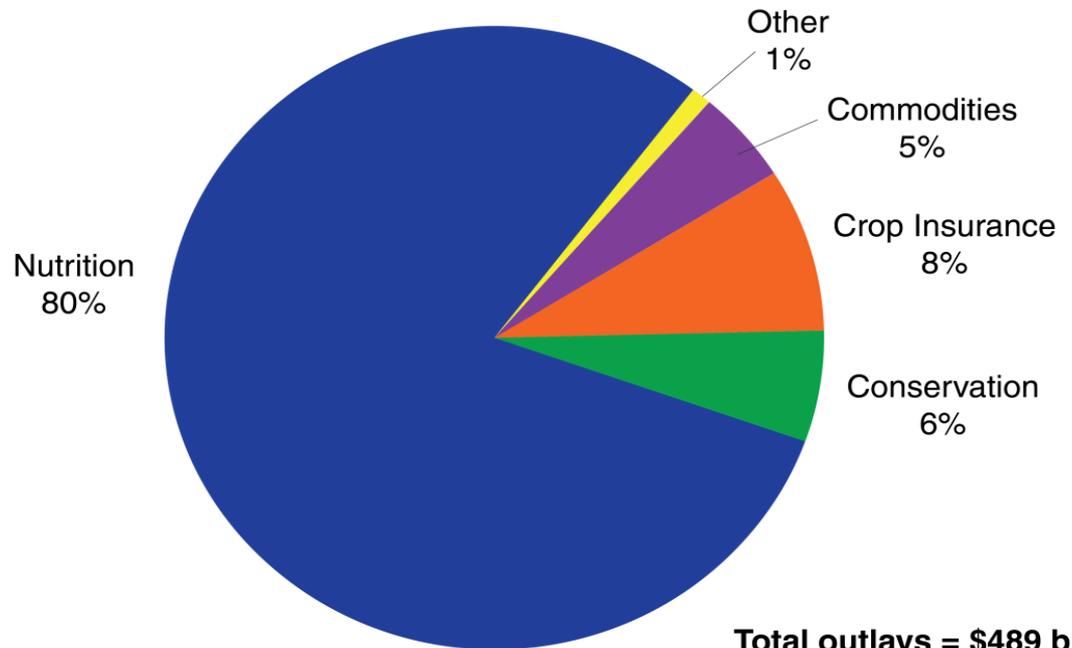
CONTEXT DURING *EXTENDED* FARM BILL DEBATE

- Rise in world prices since 2005
 - => price-based programs have largely been inconsequential
 - => declining support (PSE/AMS)
 - => global supplies rebounding w/prices moderating
- Biofuel boom ebbing?
 - => 2014 volumes under RFS reflect E10 blend wall
 - => corn-based ethanol limited to 13-14 bil gal in short run
 - => long run determined by energy prices
- Lower prices projected for grains and oilseeds
 - => Softening prices have implications for baseline 'score'
- Budget pressures
- Erosion of public support for decoupled payments
- Growth in the federal crop insurance program
- Compliance with WTO panel (Brazil cotton)

FARM BILL TITLES

Commodities
Conservation
Trade
Nutrition
Credit
Rural Development
Research
Forestry
Energy
Specialty Crops
Crop Insurance
Miscellaneous

Projected Outlays under the 2014 Farm Act, 2014-2018



Source: USDA Economic Research Service using data from Congressional Budget Office, Cost Estimates for the Agricultural Act of 2014, Jan 2014.

TITLE I PROGRAMS

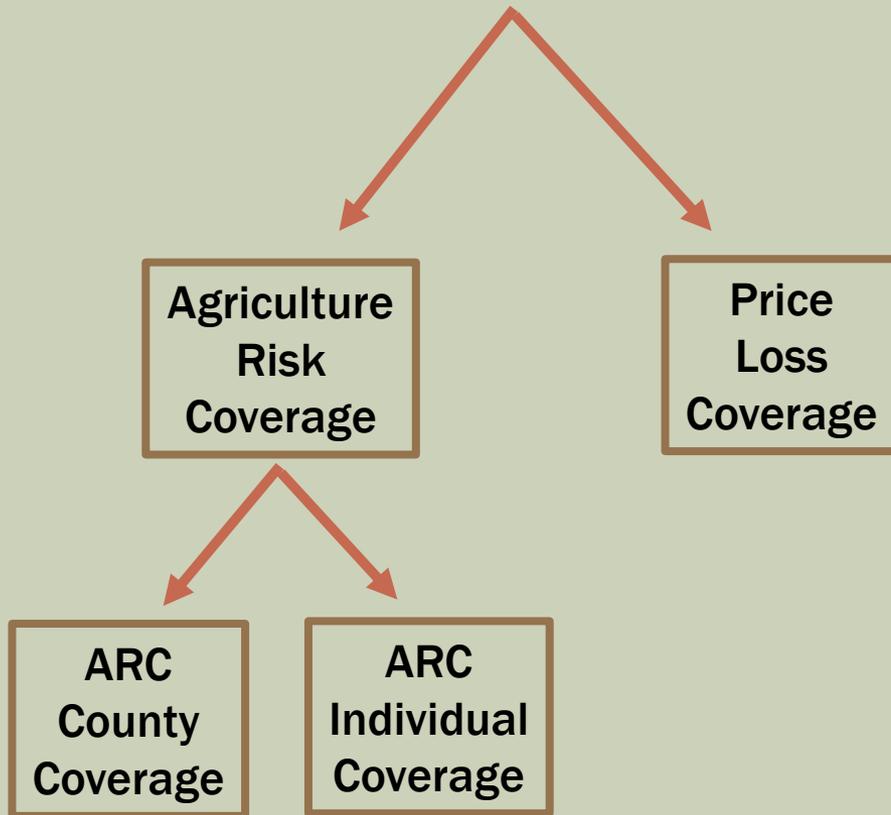
- Eliminates:
 - Direct Payments
 - Counter-Cyclical Payments
 - Average Crop Revenue Election
 - SURE
 - Dairy price support, MILC payments, DEIP (export subsidies)
- Retains marketing loans (with modifications for cotton)
- Provides transition payment for cotton in 2014
- Establishes a choice between two Base acre programs:
 - Agriculture Risk Coverage (ARC) program to assist farmers when revenue (price times yield) drops due to low prices or weather disaster
 - Price Loss Coverage (PLC) program to assist farmers when commodity prices drop below reference levels

TITLE XI CROP INSURANCE

- Creates two new shallow loss county-triggered programs
 - Supplemental Coverage Option (SCO) for producers not enrolled in Agriculture Risk Coverage program
 - Stacked Income Protection Program (STAX) for cotton only
- Conservation compliance for crop insurance

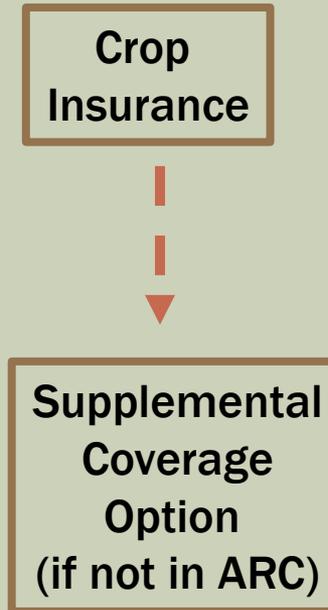
FARMER CHOICE

Title I: Commodities

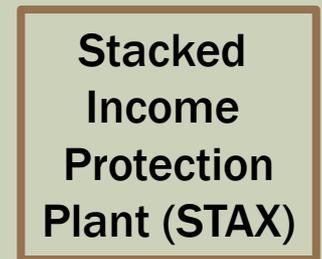


Title XI: Crop Insurance

Program Crops



Upland Cotton



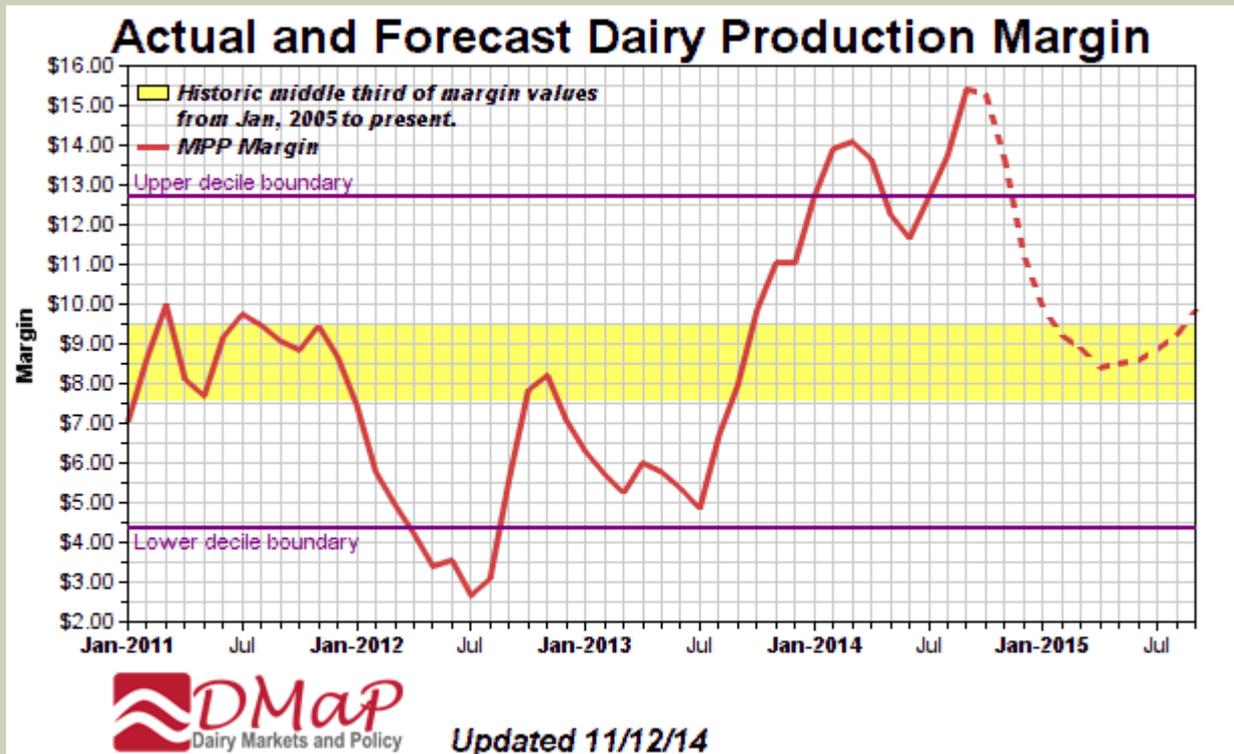
SUPPORT LEVELS: 2008 V 2014 FARM BILL

	Reference price			Maximum payment rate		
	CCP	PLC	ARC	CCP	PLC	ARC
Wheat	4.17	5.50	5.68	0.71	2.56	0.66
Barley	2.63	4.95	4.61	0.44	3.00	0.54
Corn	2.63	3.70	4.55	0.40	1.75	0.53
Oats	1.79	2.40	2.80	0.376	1.01	0.33
Sorghum	2.63	3.95	4.38	0.33	2.00	0.51
Soybeans	6.00	8.40	10.55	0.56	3.40	1.23
Peanuts	495	535	444	104	180	52
LG rice	10.50	14.00	11.70	1.65	7.50	1.36

DAIRY MARGIN PROTECTION PROGRAM

- Payment made when 'production margin' falls below coverage level over a two consecutive month period
- Margin = All milk price - Average feed cost
 - All milk price is the average price received per cwt for all milk sold to plants and dealers
 - Average feed cost a weighted average of corn, soybean meal and alfalfa hay prices
- Producer can select coverage levels from \$4.00 to \$8.00 in \$0.50 increments,
 - Producer has no premium for minimum \$4.00 per cwt coverage but increase with additional coverage to \$8.00 per cwt
 - Premiums (at all coverage levels) higher for production above 4 million pounds
- No 'supply control' feature, lower subsidies for production above

PROJECTED DAIRY MARGINS



CONCLUSIONS

- Farm safety net remains important component of farm income
- Emergence of crop insurance as primary choice for risk protection
- 2014 farm bill offers producers a myriad of choices
 - Complex decisions
 - Potential for buyer's remorse?
 - "An economist's farm bill"?
- Builds on crop insurance but with higher guarantees (and greater budget exposure) than under previous legislation
- Effects on production decisions—implications for WTO