THE FARM SAFETY NET
GOVERNMENT PAYMENTS REMAIN IMPORTANT COMPONENT OF NET CASH INCOME

Source: USDA-ERS
GROWTH IN THE CROP INSURANCE PROGRAM

- 1988 drought
- 1994 Reform Act
- ARPA 2000
GROWTH IN REVENUE INSURANCE AND AREA PLANS

Mil acres
CROP INSURANCE PREMIUMS AND INDEMNITIES

Mil $
LOSS RATIOS

Avg 1981-13 = 2.21

Avg 1981-13 = 0.94


Total loss ratio
Producer loss ratio
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

- Nutrition 80%
- Commodities 5%
- Crop Insurance 8%
- Conservation 6%
- Other 1%

Total outlays = $489 bill

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
- 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
- Agriculture Risk Coverage
  - ARC County Coverage
  - ARC Individual Coverage
- Price Loss Coverage
  - Crop Insurance
  - Supplemental Coverage Option (if not in ARC)

Title XI: Crop Insurance
- Program Crops
  - Crop Insurance
- Upland Cotton
  - Stacked Income Protection Plant (STAX)
## SUPPORT LEVELS: 2008 V 2014 FARM BILL

<table>
<thead>
<tr>
<th>Crop</th>
<th>Reference price</th>
<th>Maximum payment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CCP</td>
<td>PLC</td>
</tr>
<tr>
<td>Wheat</td>
<td>4.17</td>
<td>5.50</td>
</tr>
<tr>
<td>Barley</td>
<td>2.63</td>
<td>4.95</td>
</tr>
<tr>
<td>Corn</td>
<td>2.63</td>
<td>3.70</td>
</tr>
<tr>
<td>Oats</td>
<td>1.79</td>
<td>2.40</td>
</tr>
<tr>
<td>Sorghum</td>
<td>2.63</td>
<td>3.95</td>
</tr>
<tr>
<td>Soybeans</td>
<td>6.00</td>
<td>8.40</td>
</tr>
<tr>
<td>Peanuts</td>
<td>495</td>
<td>535</td>
</tr>
<tr>
<td>LG rice</td>
<td>10.50</td>
<td>14.00</td>
</tr>
</tbody>
</table>
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

Source: www.dairymarkets.org
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