

Integrated Farm Revenue Program

Enhancing the long-term viability and competitiveness of American agriculture

Better Protection at Lower Cost

To ensure a safe and secure food supply, farmers need a safety net when disaster hits and tools to help them manage risk. But existing commodity programs are complex and costly for taxpayers and are not applied equitably. They often fail to provide protection when needed.

American Farmland Trust (AFT) proposes a new safety net, one that will benefit conservation by enhancing the long-term viability and competitiveness of American agriculture. The new safety net is based on revenue protection that will:

- Provide better protection by targeting revenue rather than price;
- Replace existing counter-cyclical (CCPs) and loan-deficiency payments (LDPs) with more comprehensive, cost effective risk management tools;
- Be market-oriented, less trade distorting and more equitable;
- Help the environment by reducing incentives to produce on marginal land; and
- Integrate safety net programs to enable private revenue insurance to function more effectively.

Status Quo: Expensive and Full of Holes

Current revenue protection is split between two programs that operate separately from each other—commodity payments and crop insurance. Separate systems cause inconsistent payments and higher expenses for taxpayers. Commodity payments also leave large gaps in coverage for farmers because they are based on drops in price below a set target and not on drops in revenue (price multiplied by yield).

These gaps in protection result in the need for almost yearly disaster payments that cost taxpayers \$1.8 billion annually.

Under current programs, CCPs and LDPs, Congress sets price targets through a political process, rather than basing payments on actual losses, need or market conditions. These artificial signals encourage farmers to “plant for the program” and not for market demand. This stimulates overproduction that requires additional inputs such as fertilizer and pesticides, pushes production to marginal land and artificially depresses market prices.

Current programs are expensive and leave many farmers unprotected.

	HIGH YIELD	LOW YIELD
HIGH PRICE	No payment needed or received	No payment despite need
LOW PRICE	Excessive payments	Payments not enough to cover low yield

In situations when yields are low but prices are high, current programs do not make payments even though farmers face real losses in revenue. However, when yields are high and prices are below the targets, current programs often make unnecessary payments even though a farmer's overall revenue still might be high.

A More Effective Approach to Risk Management

AFT's proposal, developed by agricultural economist Dr. Carl Zulauf of Ohio State University, is based on the premise that farmers face two types of risk: at the national market level, such as widespread drought and drops in prices; and at the individual farmer level, such as localized frost.

These different risks require a two-tier, but integrated farm revenue program. Farmers rely on private insurance at the individual level, while the government handles risk management for widespread national losses where the private insurance market is ineffective. The benefits of this approach are:

- **Better protection** for farmers by providing assistance when it's needed: when farmers face a drop in revenue. This approach fixes many of the holes in existing programs. Currently, farmers fail to receive assistance in years when prices are high but yields are low and revenue is down.
- **Lower cost** than current programs because excessive payments are reduced when prices are low, but overall revenue is high, due to large yields—and all commodities are treated equally based on market risk. Most importantly, the proposal integrates crop insurance and reduces duplicate programs.
- **More market-oriented** by using a revenue target that adjusts with the market rather than one based on prices set by Congress. Farmers make production decisions based on forecasts rather than program prices. This reduces the incentive to overproduce and helps liberalize international trade.
- **Private insurance works better** by integrating private revenue insurance and national revenue deficiency payments into a single risk management program—making private revenue insurance more effective and allowing higher coverage levels at a lower cost to both producers and taxpayers.

By replacing CCPs and LDPs with a revenue-based program and integrating crop insurance, farmers will secure higher levels of protection at a lower cost – and taxpayer dollars will be used more effectively.

Integrated Revenue Protection—How It Works

The integrated farm revenue program has two parts: a national-level revenue deficiency payment and an individual-level revenue insurance product.

The federal government covers uninsurable nationwide risk. A national program protects farmers from risks such as a sudden price drop or widespread drought, while still encouraging farmers to make planting decisions based on market signals. The federal government provides a payment to farmers when national average farm revenue for a specific crop falls below the forecasted (or expected) revenue. This new system protects against both price and yield risk and would replace current price-based programs such as loan deficiency payments and counter-cyclical programs. It would not affect direct payments or conservation payments.

Private revenue insurance is integrated with the national program. Private revenue insurance would operate much like it does currently. However, it would only cover a farmer's individual revenue loss—for example from localized flooding or drought—if it were greater than the national loss. Because crop insurance only takes on individual risk, higher levels of protection would be available to farmers at a lower premium. Integration means a more efficient system, allowing the government to capture savings from crop insurance and use taxpayer money more wisely.

For more information about this or any of the policies recommended in *Agenda 2007*, please visit AFT's Web site at www.farmland.org or send an email to info@farmland.org.

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