



2007 Farm Bill Policy Recommendation

Integrated Farm Revenue Program

Recommendation

The Integrated Farm Revenue Program would improve protection while decreasing and stabilizing government expenditures. Rather than targeting price, as existing programs do, targeting revenue (price multiplied by yield) provides greater protection to producers. The revenue-based program would replace current crop-specific, price-based support programs—e.g. loan deficiency and counter-cyclical payments—as well as reduce the justification and pressure for ad hoc disaster assistance.

Rationale

Farming and ranching are inherently prone to variations in prices and yields, which can create significant variability in revenue. Government policies designed to help farmers and ranchers manage this risk should be based on the following principles:

- Agricultural risk should be shared between farmers and ranchers, the government, and the private sector.
- The government role should be to protect farmers and ranchers against unexpected drops in revenue, not changes in production technology or global trends in supply or demand that can be foreseen at the time that farmers make production decisions.
- Moreover, the government should only protect against risk that private insurance cannot protect against. Most importantly, private markets cannot protect against market-wide or systemic risk related to agricultural production, such as widespread natural disasters and unexpected drops in price.

Description

The Integrated Farm Revenue Program (IFRP), developed by Dr. Carl Zulauf of Ohio State University creates a safety net that protects agricultural producers against drops in revenue (price multiplied by yield) rather than price, as existing programs do. Compared to the status quo, this program results in a greater level of protection for risks that occur after the farmer decides to produce, while minimizing the production distortions caused by false price signals. The fundamental premise behind IFRP is that the government should only do what the private market is ineffective at doing. As such, the government takes on the responsibility of protecting farmers against market-wide risks such as unexpected drops in price due to unforeseen declines in demand and weather-related yield loss due to drought, frost, wet weather, etc. In turn, because the government is handling the systemic risk, the private insurance market can be effective at insuring revenue at the individual farm level. Under this system, farmers accept a portion of agricultural risk—just as any small businesses in America would.

The government, through a national revenue deficiency program, provides a per acre payment based on projected national revenue, which would be forecast each year before

planting. After harvest, government payments are made to farmers based on the difference between the actual national average revenue and the earlier projected revenue. Under such a system, the government covers nationwide drops in revenue due to natural disasters and/or price fluctuations during the course of the growing season. By removing these market-wide risks, the IFRP allows private insurers to protect producers against individual losses that they incur beyond the national average loss. Thus, the IFRP has two distinct components: 1) a national program that protects farmer revenue against nationwide risks; and 2) a private insurance program that protects farmer revenue against individual risk.

This revenue-based program would replace current crop specific, price-based support programs, i.e., loan deficiency and counter-cyclical payments, and reduces the justification and pressure for ad hoc disaster assistance. In addition, with the government removing the systemic risk, private crop insurance would be viable with minimal government subsidy. Because the projected revenue is recalculated every year under IFRP, the program would be responsive to changes in long-term market conditions while providing protection to farmers against drops in revenue that occur after they have made a decision to plant a particular crop.

Mechanics

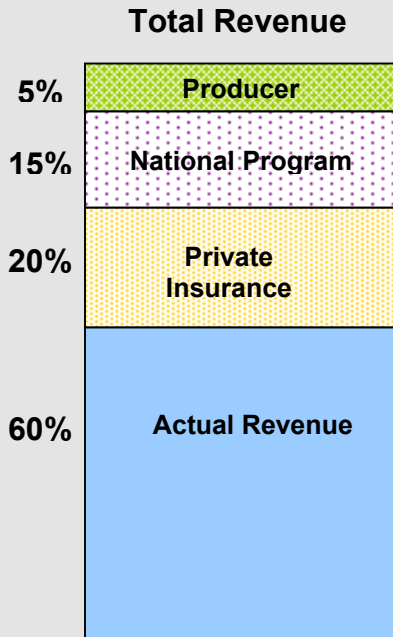
National Revenue Deficiency Program

- At the beginning of each growing season, a national projected per acre revenue is calculated by multiplying the forecasted national average price times the expected national average per acre yield.
- After harvest, a national per acre realized revenue is calculated based on actual prices received and actual nationwide average yields.
- Per acre payments are based on the difference between projected revenue and the actual revenue.
- The National Revenue Deficiency Program therefore provides per acre payments based on unexpected drops in national revenue during the growing season.
- Because the national projected revenue is reset each year, this program reduces market distortions and overproduction, as is the case with the current system, which establishes a fixed support price, thus sending false price signals to producers.

Individual Revenue Insurance Program

- With the government removing the systemic or market-wide risk, a private insurance provider can protect individuals against losses that exceed the national average.
- If an individual farmer has a per acre revenue loss greater than the national average revenue loss, then the private insurance program can make up the difference on an actuarially sound basis.
- The private individual insurance portion of the program uses a farmer's historical yields, similar to the current insurance products based on Actual Production History (APH). *(See example on next page)*

Example



- The national average revenue for corn is projected to be \$350 dollars per acre.
- The realized national average revenue is calculated, post harvest, to be \$280 dollars per acre, a 20% decline.
- With a 95% level of national revenue protection, all corn producers receive a government payment of 15% of their individual expected revenue.
- However, an individual corn producer experiences a 40% decline in revenue.
- A private individual revenue insurance product covers the 20% loss in revenue that exceeds the national decline.