

The Farm Safety Net Improvement Act of 2007 (S.1872)

Reforming Farm Programs to Better Serve Farmers and Taxpayers

This comprehensive bill, introduced by Senators Richard Durbin (IL) and Sherrod Brown (OH), provides a better safety net for farmers by replacing price-support programs with a two-tier revenue protection program called the Revenue Counter Cyclical Payment (RCCP)—at no additional cost to taxpayers.

Under the RCCP approach, farmers rely on private revenue insurance at the individual level, while the government handles widespread losses at the state level where the private insurance market is less effective. Benefits include:

- **Better protection** for farmers by protecting revenue (price multiplied by yield) rather than merely price as the current system does. Revenue protection fixes many of the holes in the existing safety net. By protecting farmers' yields, this program also reduces the need for ad hoc disaster assistance.
- **Less production distortions** by using a revenue target that adjusts with the market rather than politically set target prices and loan rates. This revenue protection program reduces the incentive to overproduce on marginal land and helps reduce production distortions.
- **More equitable treatment across crops** resulting in planting decisions made based on market signals not the government program. All commodities are given protection based more on market risk rather than politically fixed target prices and marketing loan rates.
- **Private crop insurance works better** by integrating private revenue insurance with federal revenue protection into a comprehensive risk management system—making private revenue insurance more cost-effective and allowing higher coverage levels for farmers at a lower cost.
- **No additional costs** because of the savings created by integration with crop insurance and the elimination of inefficient support payments.

Status Quo: Expensive and Full of Holes

The current farm safety net is split between programs that operate separately from each other—commodity payments and crop insurance. Separate systems cause inconsistent payments and higher expenses for taxpayers. Current commodity supports 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). Farmers fail to receive assistance even though they face real losses in revenue when prices are high but yields are low. *These gaps in protection result in the need for almost yearly disaster payments that cost taxpayers \$1.8 billion annually.*

Current programs can be 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.

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

How It Works:

The Revenue Counter Cyclical Payment is a state-level revenue protection program that complements an individual-level private revenue insurance product. The federal government covers wide-spread risk—through a state program to protect farmers from risks such as sudden price drop or widespread drought—while still encouraging farmers to make planting decisions based on market signals.

The federal government provides a payment when a farmer’s actual revenue (price multiplied by yield) falls below 90 percent of the forecasted state target revenue for a specific crop. Private insurance is integrated with the state program—operating much like it does currently. However, private insurance would only cover a farmer’s individual revenue losses beyond what the government covers. In doing so, farmers will see a significant decrease in their crop insurance premiums.

The RCCP replaces existing counter-cyclical payments (CCPs) and loan-deficiency payments (LDPs) with a state-level revenue protection program. Congressional Budget Office (CBO) estimates indicate the cost savings from integrating crop insurance and replacing LDP’s, and CCP’s fully offset the cost of the RCCP making it effectively cost neutral. Direct Payments are not affected by this revenue protection proposal.

By replacing counter-cyclical payments and loan-deficiency payments with a revenue-based program and integrating crop insurance, farmers will secure higher levels of protection at no additional cost—and taxpayer dollars will be used more effectively.



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