

# Integrated Farm Revenue Program

*Enhancing the long-term viability and competitiveness of American agriculture*

## Better Protection at Lower Cost

Farmers need a safety net for when disaster hits, along with tools to help them manage risk. But existing commodity programs are complex, costly, and often fail to provide protection when it is needed. American Farmland Trust proposes a new safety net 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 cost-effective risk management tools;
- Be market oriented, less trade distorting and more equitable; and,
- Integrate safety net programs so that private revenue insurance functions more effectively.

## Status Quo: Expensive and Full of Holes

Current commodity programs, including counter-cyclical payments (CCPs) and loan deficiency payments (LDPs), are expensive for taxpayers. They also leave large gaps in coverage because they are based on drops in price, not drops in revenue (price multiplied by yield). Under current programs, Congress sets targets through a political process, rather than basing payments on actual losses. These artificial signals encourage farmers to “plant for a program” and not for market demand. This stimulates overproduction that requires additional inputs such as fertilizer and pesticides and encourages production on marginal land.

## A More Effective Approach to Risk Management

AFT’s revenue protection proposal, developed by agricultural economist Dr. Carl Zulauf of Ohio State University, is based on the premise that farmers should rely on private insurance, with the government handling risk management only in situations where the private market is ineffective. The benefits of this approach are:

- **Better protection...**for farmers by providing assistance when it is needed: when farmers face a drop in revenue. This approach fixes many of the holes in current programs that

**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.

focus solely on price, for instance when farmers fail to receive assistance in years that prices are high but yields are low, decreasing revenue.

- **Lower cost...** than current programs because AFT's revenue protection proposal would reduce excessive payments in situations where prices are low but overall revenue is high due to large yields. Most importantly, AFT's proposal would treat all commodities equally based on market risk. Government savings could be reinvested to address other needs such as conservation, new market development, energy, better diets and research.
- **More market-oriented...** by using a revenue target that moves with the market rather than being based on targets set by Congress. Payments determined by the difference between forecasted revenue and actual revenue protect farmers against price and yield changes that occur *after* farmers have made planting decisions. Therefore, farmers make production decisions based on actual forecasts rather than by "planting for the program." This reduces the incentive to overproduce and meets the need for more liberalized international trade in agriculture.
- **Enables private insurance to work better...** by integrating private revenue insurance and national revenue deficiency payments into a single risk management program. This integration makes private revenue insurance more effective and allows higher coverage levels at a lower cost.

## Integrated Revenue Protection—How It Works

The integrated farm revenue program has two parts: 1) a national-level revenue deficiency payment, and 2) an individual-level revenue insurance product.

**The federal government covers uninsurable nationwide risk.** A national revenue deficiency program protects farmers from nationwide 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 95 percent of the forecasted (or expected) revenue.

**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. Thus, higher levels of protection would be available to farmers at lower cost, because the federal government would be fully covering the nationwide revenue risk.

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

November 2006

AMERICAN FARMLAND TRUST

1200 18th Street, NW, Suite 800, Washington, DC 20036 • (202) 331-7300 • [www.farmland.org](http://www.farmland.org)