

A Farm Bill for the Future:
The Safety Net

Kent Olson
Applied Economics
University of Minnesota

One of the biggest discussions in the debate over the next farm bill is the safety net for farm income. To allow farmers to adapt best to a changing future, a new safety net is needed that allows crop farmers to make production decisions based not on government payments but on what consumers want.

Current policy provides a safety net for wheat, corn, soybeans, upland cotton, rice, other feed grains, and other oilseeds through three price support programs: direct payments, counter-cyclical payments, and the marketing assistance loan program (which includes the loan deficiency payment or LDP). These support levels are based on historical market conditions and ignore current changes especially due to demand for ethanol and bio-diesel.

The USDA has proposed to pay farmers if national revenue estimates fall below a national target with supports adjusting as the market adjusts. Senator Tom Harkin, Chair of the Senate Agriculture Committee, has suggested using either a national or state level to determine revenue support levels. The National Corn Growers Association's revenue proposal focuses on revenue at the individual farm and county levels.

Other groups have proposed government supported risk management programs in lieu of price and revenue support programs. These risk management programs include risk management accounts, insurance programs, and other financial management tools for farmers to use. Several of these features are included in the FARM 21 bill introduced by Representative Kind (Wis.) and others.

On July 6, House Ag Committee Chair Collin Peterson released the Chair's markup of the full bill with only minor adjustments in the current price-based system. The main point I hear in the discussion to continue present support systems is that agricultural groups like the current system and do not want it changed. This argument runs against the complaint raised by other farmers that the safety net based on price supports is lying on the ground when farmers have little or no production. The net is lying on the ground because actual production is used to calculate the payment, and if actual production is low or zero, the payment will be low or zero. Another problem with the price support system is that farmers will respond to high prices appropriately by planting more, but if prices fall below support levels, they do not respond fully to the market signal because the price support level becomes the decision signal.

The USDA, NCGA, and Harkin proposals for supporting revenue do a better job of providing a safety net during both high and low production years. By focusing on revenue, these proposals take away some of the problem of disguising market price

signals. However, unless the safety net is applied to revenue on the whole farm, these proposals still limit the protection to the current list of crops and, thus, discourage a farmer to plant other crops.

Providing an array of risk management tools would allow farmers to choose the appropriate mix of risk management tools they need to protect themselves from losses. By providing revenue protection for the whole farm and not just a select list of products, market price signals can be heard stronger, and farmers will respond better and more easily to those signals.

Would production agriculture be destroyed if the rules are changed—as some claim? No, not really. Those who farm for the government check may say their way of farming would be destroyed. But, those farmers who see their business as producing the food, fiber, and fuel which the market says consumers want will just say their choices changed due to changes in the market. If the future policy allows for a gradual shift, farmers would have time to adjust without a large shock to their finances. Regional shifts in production would probably occur. But most land would remain farmed.

Some are concerned that switching to risk management accounts and other risk management tools would result in lower farm incomes. Focusing only on the size of the government check is too narrow of a focus. Alternative proposals also change other parts of the farm bill that would benefit farmers. Funding for rural development, bio-energy development, conservation, research, and education would benefit farmers and communities both directly and indirectly.

The increased demand for corn due to ethanol has raised price projections above the level that would trigger a payment to farmers under current policy. That change in the market makes the next five years extremely different from the market in 1996 when the last big change in the farm bill was attempted. So, 2007 may offer the best chance to start the process of changing the structure of the safety net for farm income.

The safety net is only one part of the large, complex farm bill. The full House Agriculture Committee is scheduled to start discussion on July 17. The Senate Committee will be releasing their version soon. So now is the time to contact your Representative and Senators.