Ag Policy Update: 2013

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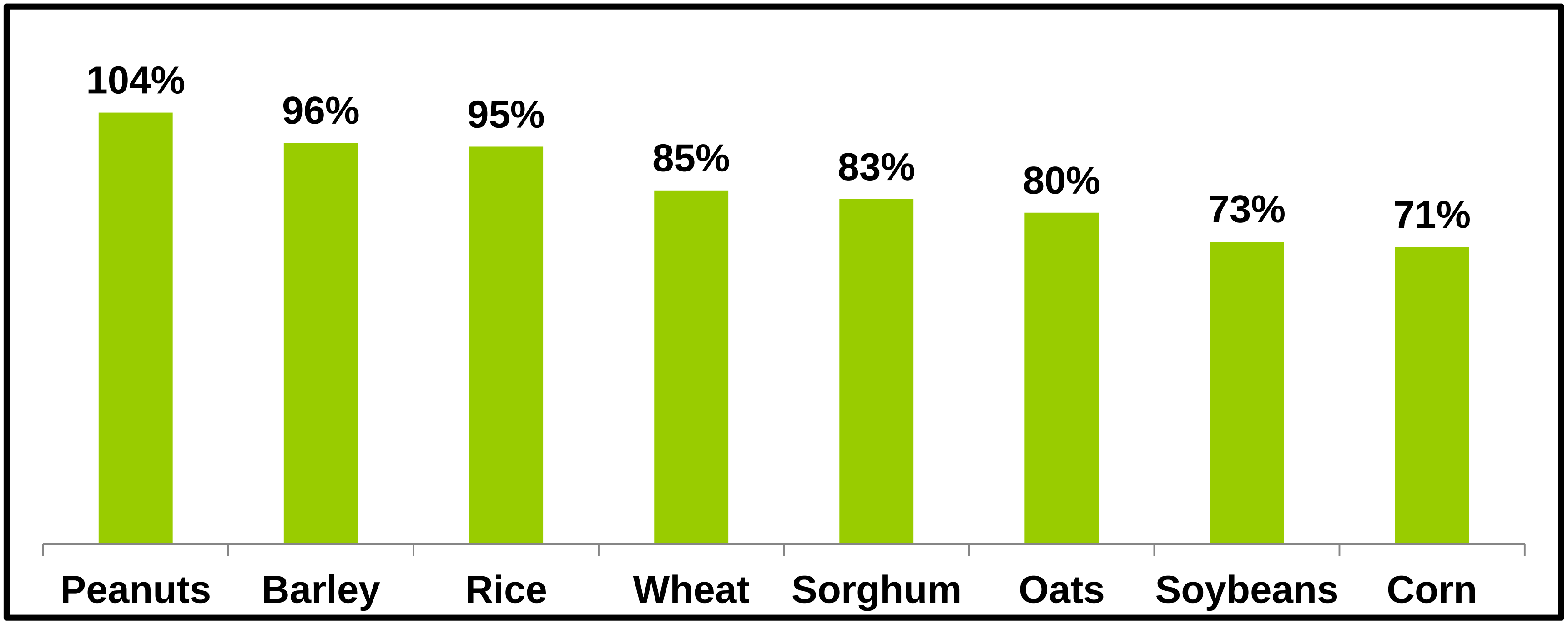
2013 Department of Agricultural, Environmental, and Development Economics Outlook Program

Potentially Important Differences between House and Senate Farm Bills

- ►Nutrition Programs
- ►Permanent Law
- ►Dairy Programs
- ►Crop Insurance Conservation Compliance
- ►Crop Insurance Subsidy Limits
- ►Crop Safety Net:
  - Base vs. Planted Payment Acres
  - Moving vs. Fixed Target
  - Price vs. Revenue Target
  - Choice or Single Program

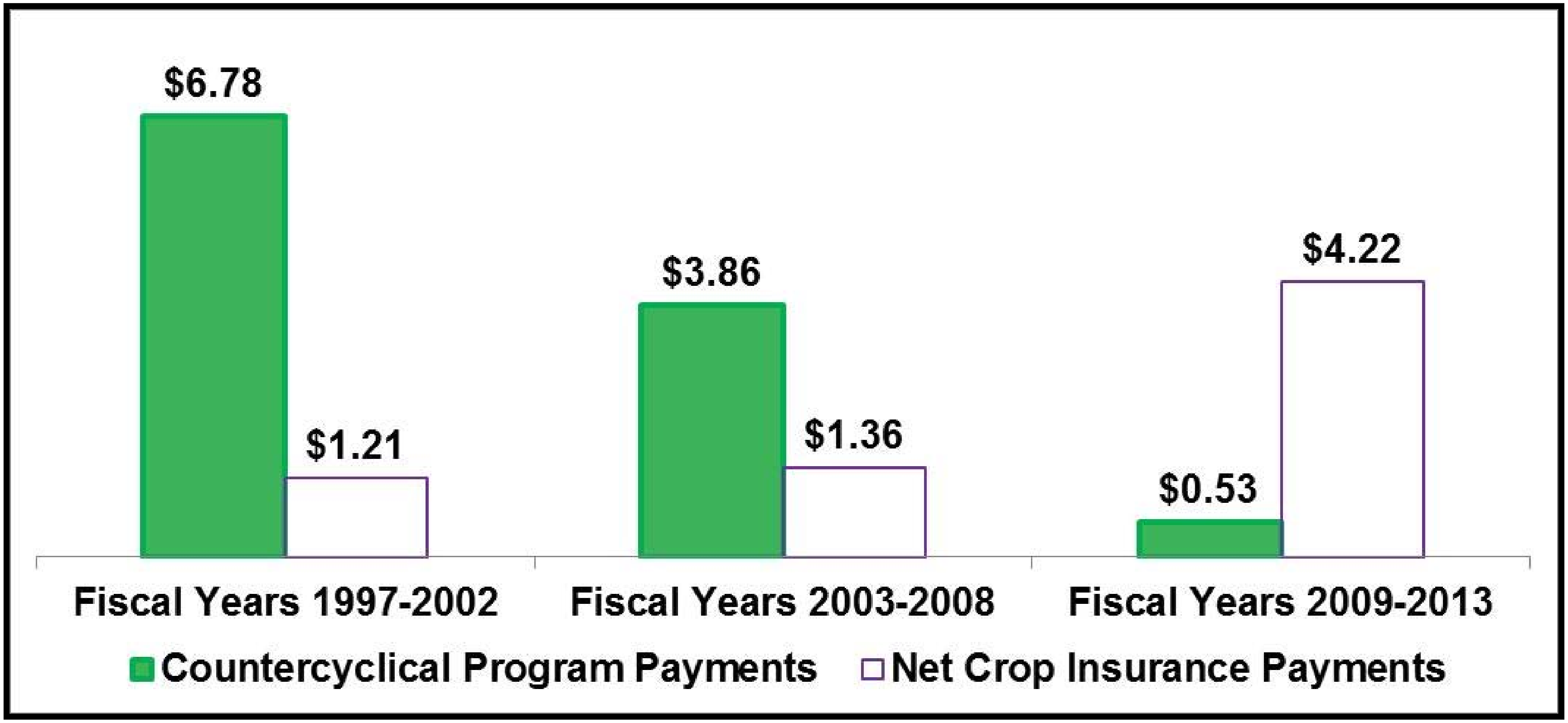
Comparison of House Target Prices to Average 2008-2012 Market Prices



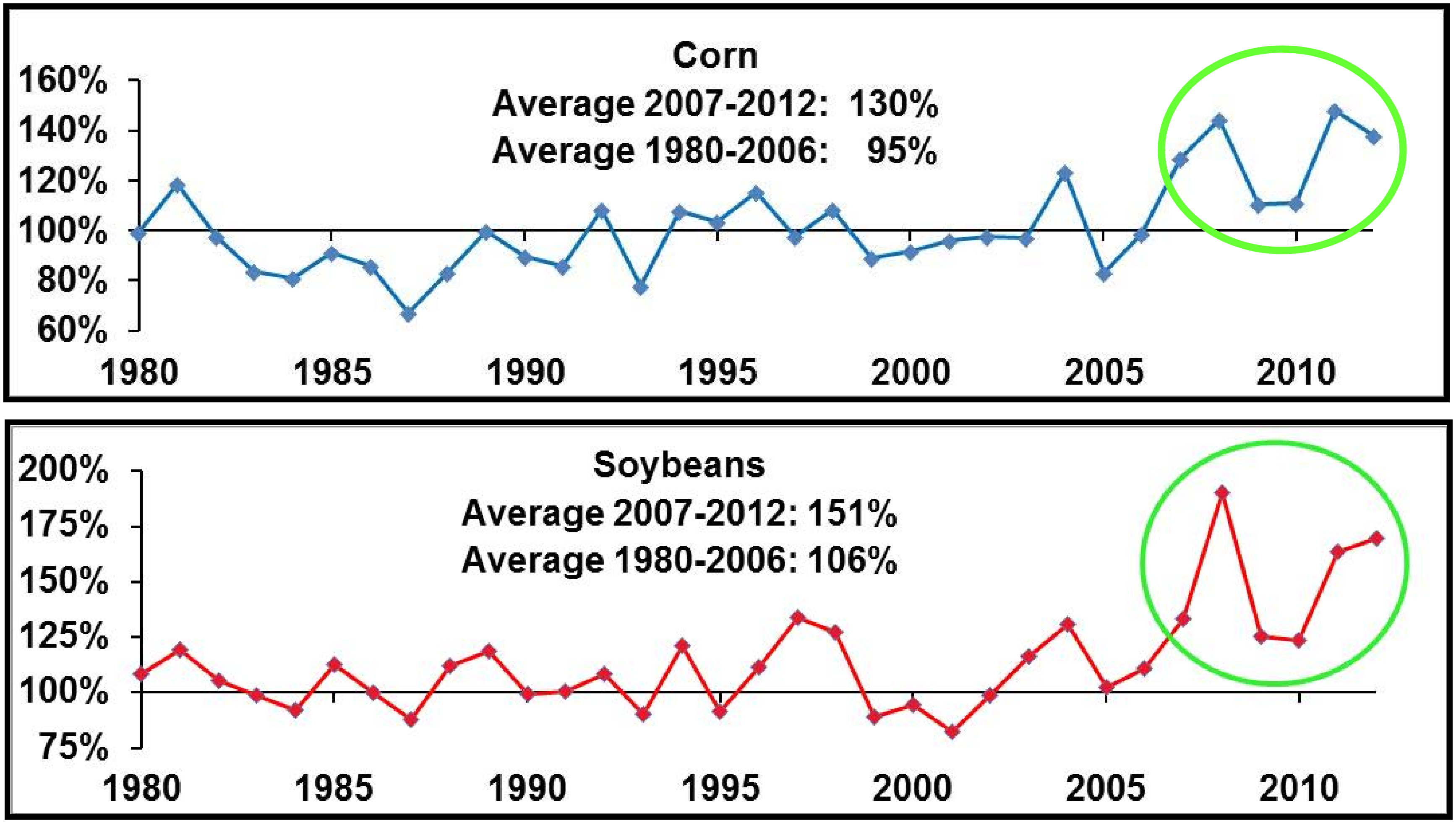
Possible Paths Forward

- ► Conference agreement enacted into law
- ► Conference does not reach agreement: current farm bill extended 1 or 2 years, probably with cuts in direct payments
- ► Conference does not reach agreement: permanent law repealed, commodity programs end; unlikely but probability is not 0

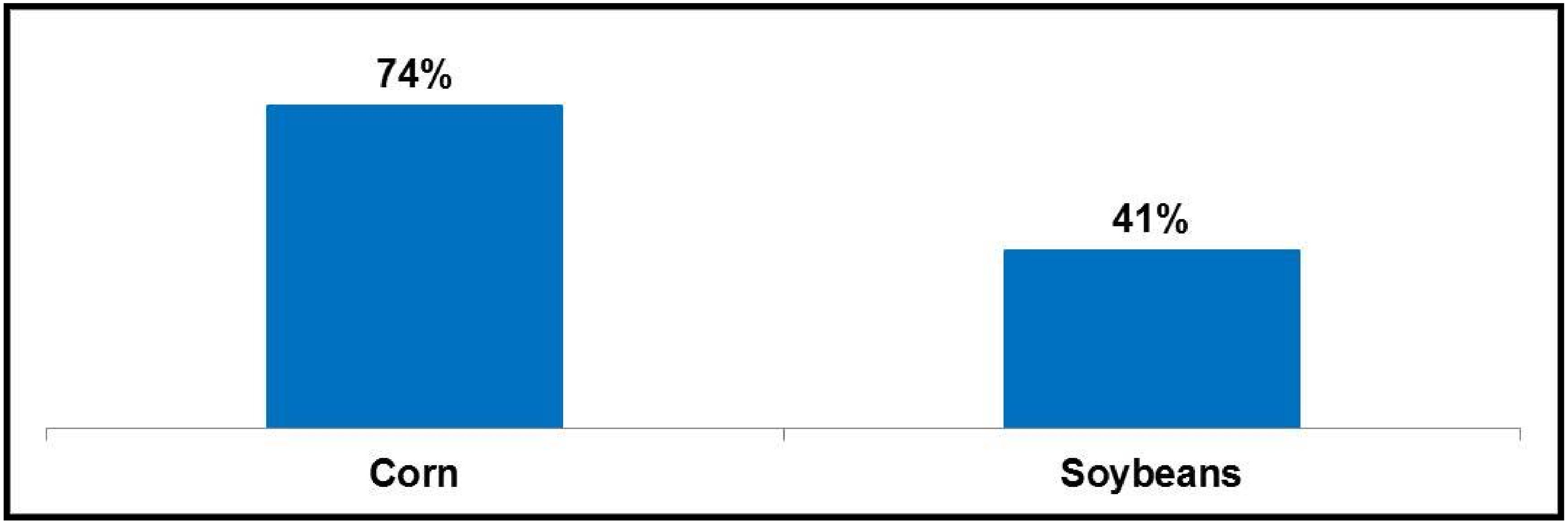
Average Per Year Payment to U.S. Farms by Countercyclical Programs vs. Crop Insurance, Billion $, Farm Bill Periods



Ratio: (85% of HPO Insurance Price Adjusted for Cash Basis) to (Cash Expenses + Land Charge), U.S. Corn and Soybeans, 1975-2012



Share of Years between 1975 and 2006 in which (85% of HPO Insurance Price Adjusted for Cash Basis) did not exceed (Cash Expenses + Land Charge)



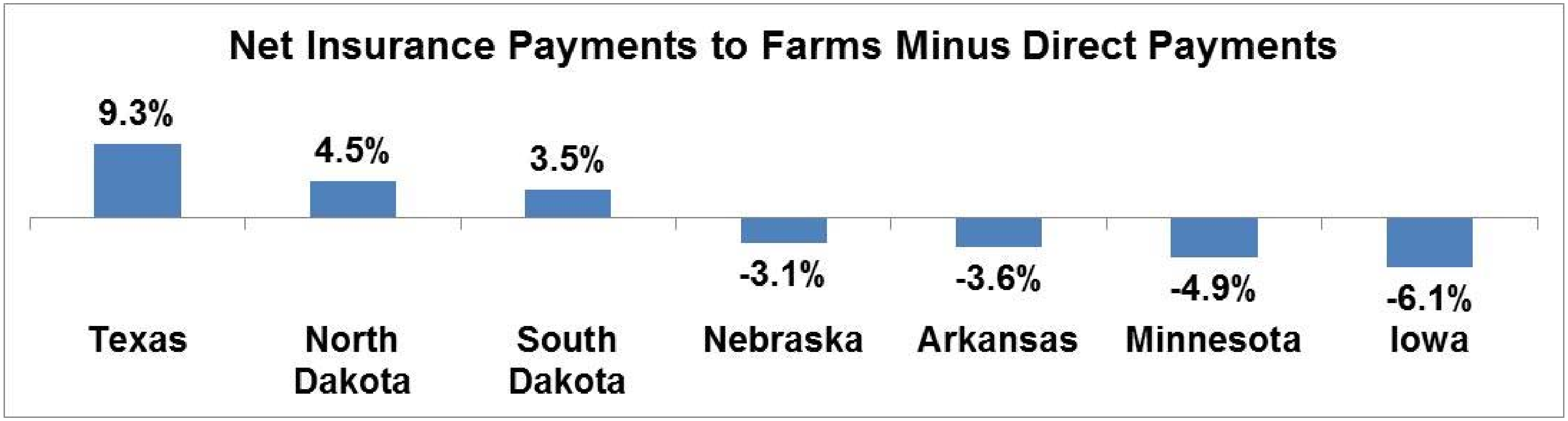
CONCLUSIONS

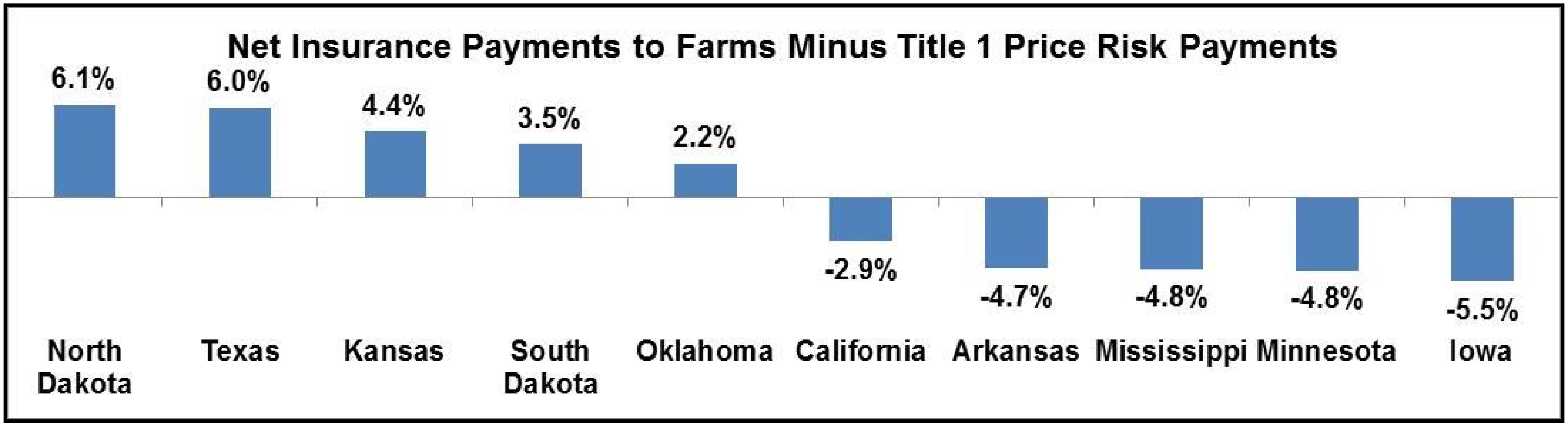
- Likely 2013 farm bill debate outcome is 2-year extension with smaller direct payments OR new bill
- Be careful about assuming insurance will cover your cost of production, even at 85% coverage
- Insurance is a cost of getting a loan for production expenses
- Next farm bill (maybe this one) will be about the cost and efficacy of crop insurance

THANK YOU! **QUESTIONS?**

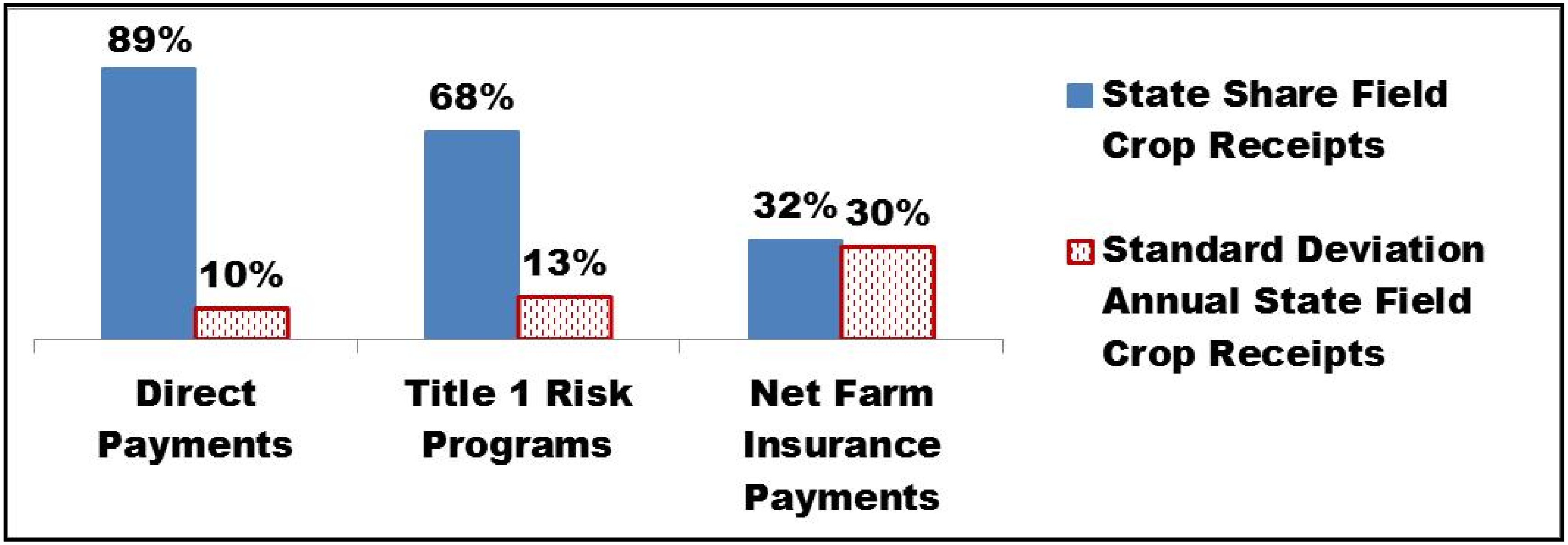
Comparison of State Share of Payments by Farm Safety Net Programs, 1997-2012

States with difference over 2.2 percentage points (1 standard deviation); assumes 91.5% of 2011 direct payment for 2012





Variation in State Share of Program Payments Explained by 1997-2012



- Direct revenue payments have a risk management component. Crop insurance has a farm revenue payment component. Above suggest crop insurance is roughly a 50-50 mix of a revenue payment program and risk management program.
- Key reason for ascendency of crop insurance is democratization of farm payments. From 1997 through 2012, about 15% of net farm insurance payments went to non-title 1 program crops.