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

- Peanuts: 104%
- Barley: 96%
- Rice: 95%
- Wheat: 85%
- Sorghum: 83%
- Oats: 80%
- Soybeans: 73%
- Corn: 71%
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► Conference does not reach agreement: permanent law repealed, commodity programs end; unlikely but probability is not 0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

- Fiscal Years 1997-2002: $6.78 (Countercyclical Program Payments: $1.21, Net Crop Insurance Payments: $1.36)
- Fiscal Years 2003-2008: $3.86 (Countercyclical Program Payments: $1.36, Net Crop Insurance Payments: $0.53)
- Fiscal Years 2009-2013: $4.22 (Countercyclical Program Payments: $0.53, Net Crop Insurance Payments: $0.53)
Ratio: (85% of HPO Insurance Price Adjusted for Cash Basis) to (Cash Expenses + Land Charge), U.S. Corn and Soybeans, 1975-2012

Corn
Average 2007-2012: 130%
Average 1980-2006: 95%

Soybeans
Average 2007-2012: 151%
Average 1980-2006: 106%
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)

- Corn: 74%
- Soybeans: 41%
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**

#### Net Insurance Payments to Farms Minus Direct Payments

<table>
<thead>
<tr>
<th>State</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>9.3%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>4.5%</td>
</tr>
<tr>
<td>South Dakota</td>
<td>3.5%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Arkansas</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Iowa</td>
<td>-6.1%</td>
</tr>
</tbody>
</table>

#### Net Insurance Payments to Farms Minus Title 1 Price Risk Payments

<table>
<thead>
<tr>
<th>State</th>
<th>Difference</th>
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</thead>
<tbody>
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</tr>
<tr>
<td>Texas</td>
<td>6.0%</td>
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<tr>
<td>Kansas</td>
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<tr>
<td>South Dakota</td>
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<tr>
<td>Oklahoma</td>
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<td>California</td>
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<tr>
<td>Arkansas</td>
<td>-4.7%</td>
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<tr>
<td>Mississippi</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Iowa</td>
<td>-5.5%</td>
</tr>
</tbody>
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December 2, 2013

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Department of Agricultural, Environmental, and Development Economics (AEDE)
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.