CHOICES
The magazine of food, farm, and resource issues
1st Quarter 2013 • 28(1)

A publication of the Agricultural & Applied Economics Association

AAEA Agricultural & Applied Economics Association

Farm Policy and Disaster Aid Programs: The Path Looking Forward

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JEL Classification: H30, Q18
Keywords: Agriculture, Policy, Subsidies

Five standing or permanent disaster programs were established by the 2008 Farm Bill but were only funded through the end of 2011. In 2012, therefore, while the five programs remained on the legislative books, without funding they had become vacuous as vehicles for providing disaster aid to farmers and ranchers, at a time when the Corn Belt, Texas, Oklahoma and other mid-Western states experienced severe drought. For producers in the drought-stricken regions and without crop insurance, the financial consequences were harsh. In the context of the current debate of the 2013 Farm Bill, therefore, we examine what is likely to happen with respect to a new farm bill and disaster aid policy over the next five years. There appears to be strong support for continuing disaster aid loan programs and disaster programs for livestock operations. However, not least because of the availability of other lucrative government programs—including federal crop insurance—and a near record-high level of farm incomes in 2012, the permanent or standing crop disaster program established by the 2008 Farm Bill—the Supplemental Revenues Assistance Payments (SURE) program—appears to have been permanently discontinued.

Disaster Aid in the 2012 Debate over Farm Policy

Between May and July 2012, with respect to the livestock sector, the Congressional agriculture committees indicated they were willing to offer some disaster aid relief to the agricultural sector. Both the Senate, in a bill passed by the entire body, and the House Agriculture Committee proposed new funding for the four disaster aid programs targeted at livestock, farm-raised fish, and tree and orchard enterprises. The effort foundered in late July 2012 when, with support from anti-poverty and environmental lobbies concerned about nutrition and conservation program funding, the agricultural lobby argued that the disaster aid measures be included in a comprehensive farm bill package. They hoped that the Midwest drought could be used as a means of obtaining a five-year farm bill that would involve only relatively modest cuts to farm subsidies.

The House leadership, however, chose not to bring the farm bill proposed by the House Agriculture Committee to the floor for a vote before the 2012 summer recess. Congress also accomplished very little in September and October with respect to any legislation before the November presidential and congressional elections. During the subsequent lame-duck session, the Congressional focus was largely on taxation and overall spending issues associated with the so-called "fiscal cliff," a set of mandatory tax increases and spending cuts authorized by Congress in the Budget Control Act of 2011 to take place on January 1, 2013, if a substantial deficit reduction package was not authorized before that date. The last-minute compromise negotiated by Senator Mitch McConnell and Vice President Joe Biden on January 3, 2012, included an extension of the 2008 Farm Bill provisions through September 30, 2013, but only for programs with baseline funding. No new resources, therefore, were provided for the disaster aid programs established in 2008.

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The House and Senate Disaster Aid Proposals

Funding would have been reestablished for four "permanent" disaster aid programs by the Senate and House for 2012 and, most likely, 2013. They included the Livestock Indemnity Program (LIP); the Livestock Forage Program (LFP); the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP); and the Orchard and Nursery Tree Assistance Program (TAP). Apart from TAP, the disaster aid programs to be renewed were targeted at addressing loss of forage and excessive mortality and morbidity rates in livestock operations. However, the SURE program that provided disaster aid for crops was excluded from the 2012 Senate and House agricultural committees' disaster aid proposals, as it has been in more recent 2013 Farm Bill proposals, and appears to have been permanently discontinued.

The omission of the SURE program was linked to three main issues. First, most broad-based agricultural and commodity groups argued that Congress needed to develop a new farm bill that renewed the livestock- and tree-oriented disaster programs, but urged the adoption of shallow loss or new quasi price support programs to provide an improved "farm safety net" for crops. Second, the SURE program was initially scored at about $450 million a year by the Congressional Budget Office (CBO), but proved to be much more expensive over the 2008-2011 period for which it was funded, involving over $2 billion in expenditures in its first year, largely because of the frequency with which counties were declared to have experienced disasters (Beckerman and Watts, 2012).

Third, in 2012, over 90% of farmers in the Corn Belt purchased a federally subsidized multiple-peril revenue insurance product with what is called a "harvest price option" to protect themselves against crop losses at relatively high levels of coverage. As a result, they received more income from insurance indemnities for crop losses and from the marketplace for the crops they were able to harvest than they expected when they planted their crops, even if they experienced a major crop loss because of the drought. The reason: the "harvest price option" increases a farm's revenue coverage as illustrated in the example Harvest Price Option Insurance box shown below. This is exactly what happened for crops like corn, soybeans, and wheat in 2012. Shortfalls in expected yields resulted in a "natural hedge" of higher crop prices whose effects were embedded in the indemnities received by farmers who experienced insured crop losses. Policy makers understood what had happened and, therefore, were reluctant to provide additional disaster aid funds for crop producers.

The Policy Backdrop to a 2013 Farm Bill

Congress's path to a farm bill in 2013 continues to be difficult, in part because some politically influential groups are strongly opposed to current levels of spending on farm subsidies, not least because most of the subsidies go to large and relatively wealthy farm households (Goodwin, 2011; Gardner and Wright, 1995). Delays in the development of farm bills are not new phenomena. Farm legislation scheduled for 1995 became the 1996 Freedom to Farm Act while the farm bill scheduled for 2007 did not arrive until May 2008. What makes the current hiatus different is the broader political and macroeconomic context within which the (now) 2013 Farm Bill is being developed.

Since early 2011, in relation to all existing and any new programs involving federal expenditures, the overarching focus in Congress and the White House has been on deficit reduction. In the House, the Republican leadership appears to have been concerned with reducing spending on most programs while protecting outlays in what the Republican caucus has viewed as critical areas. Another challenge for farm interest groups has been the fact that, along with other leading members of the House and Senate, House Speaker Rep. John Boehner's legislative history could be interpreted as reflecting skepticism about the need for farm subsidies. For example, he has never voted in favor of a farm bill.

In addition, the White House and the Senate Democrat leadership, as well as Minority Leader Rep. Nancy Pelosi in the House, have consistently opposed substantial cuts to the

The Harvest Price Option Insurance Product

Consider the following example of how the harvest price option multiple multiple-peril insurance product works. The projected price for a bushel of corn in Adair County, Iowa, at the 2012 Spring sign-up date was $5.68 but the approved harvest price for the contract in the Fall of 2012 was $7.50, an increase of 34%. Using the corn futures market and adjusting for basis, a farmer located in that county with an expected yield of 200 bushels would have expected a per-acre revenue of $1,136 when the crop was planted in the spring. However, if the farmer purchased an 80% percent coverage contract and experienced a total loss as a result of the drought, then the farmer would have received a per-acre indemnity check for $1,200, equal to the 160 bushels for which losses were paid multiplied by the payment rate of $7.50 per bushel. The farmer also saved some operating costs because the farmer neither had to harvest nor market a crop.

nutrition programs included in the farm bill proposals. Further, a considerable proportion of Republicans in the House serve districts that include urban as well as suburban constituents. They, too, may be reluctant to vote for substantial reductions in the Supplemental Nutrition Assistance Program (SNAP) and the federal school meals programs.

Finally, a broad coalition of interest groups has been formed to lobby for substantial reductions in farm subsidies. These range from organizations such as the Environmental Working Group and Bread for the World, which are concerned about protecting funding for conservation and nutrition programs, to the Heritage Foundation and Americans for Tax Reform, which simply want to see lower levels of government spending. Thus, in the 2013 Farm Bill debate, largely because of the broader focus on deficit reduction, the traditional players—farm-based organizations, agribusiness lobbies, poverty groups, and environmental lobbies—have been augmented by some new players with very different objectives and vociferous Congressional constituencies that include some tea-party representatives.

The Current Farm Subsidy Budget and the Future of Currently Funded Disaster Aid Programs

Federal farm programs require federal funds and so the scope of those programs is fundamentally linked to the budget Congress is willing to provide to the House and Senate agricultural committees. Farm bill spending is scored at about $100 billion a year over the period 2013-2017 under the programs authorized by the 2008 Farm Bill by the CBO. However, if no major changes can be made to spending on SNAP and school lunch and breakfast programs, which seems likely to be the case, about $77 billion will be unavailable as a source of potential Congressional budget cuts.

Therefore, any substantial budget cuts are likely to come from the residual $23 billion in expected annual farm bill outlays on farm subsidy, conservation, research and development, and other programs. As shown in Table 1, these include the Direct Payments program (scored by CBO at about $5 billion a year), the Countercyclical Payments program (about $200 million), the Milk Income Loss Contract (about $200 million), the Average Crop Revenue (ACRE) program (about $650 million), the loan rate program (negligible outlays because of CBO assumptions about baseline commodity prices), the federal crop insurance program ($9.1 billion), conservation programs ($6.4 billion), and over 80 other programs, including public research and development and extension programs (scored at a net of $0.5 billion).

With respect to drought aid, currently those programs do not include any of the five standing disaster aid programs established by the 2008 Farm Bill. However, they do include two long standing disaster aid initiatives: the federal emergency loan program (with loans of up to $50,000) and the disaster set-aside program that allows farmers to defer the repayment of interest and principal on Farm Service Agency (FSA) loans in counties declared as disaster-aid-eligible by either the President or the Secretary of Agriculture. They also include the Non-Insured Crop Disaster Assistance Program (NAP) managed by FSA that has been available for many years. Under this program, farmers can obtain coverage against catastrophic losses for crops that cannot be insured through the federal crop insurance program.

All three of these programs, along with the Secretary of Agriculture's authority to allow haying and grazing on lands enrolled in the Conservation Reserve Program, are likely to be retained in a new farm bill, not least because they typically involve very modest annual outlays. Many producers also view the subsidies they receive through the Direct Payments program as a critical part of the federal farm financial safety net, and clearly crop insurance subsidies are widely used as both a way of increasing farm incomes and managing farm level income risk.

Table 1: CBO Estimated Annual Average Expenditures Under the Provisions of the 2008 Farm Bill: 2013-2017

Expenditure Category	CBO Annual Average Expenditure Estimates ($ billions)
Commodity Programs (including Direct Payments, Countercyclical Payments, Milk Income Loss Contract Outlays, Loan Deficiency Payments, and ACRE Payments)	$6.29
Conservation Programs (including Conservatoin Reserve, Wetlands Reserve and other Conservation Programs)	$6.41
Nutrition Programs (including SNAP and School Meals Expenditures)	$77.11
Federal Crop Insurance Programs	$9.09
Other Programs (excluding credit programs)	$0.55
Total Outlays B	$99.28

A Source: Congressional Research Service. (July, 2012)
B The categories do not sum to the total because CBO estimates that various USDA credit programs will, on average, generate about $266 million a year in net income.

Disaster Aid and the Farm Safety Net in a New Farm Bill

In the current policy environment, one relatively long-standing element of the federal farm subsidy package, the Direct Payments program, is almost certain to be discontinued. While funding for the program is currently included in the January 2013 McConnell-Biden compromise extension of the 2008 Farm Bill, the provisions of that compromise will be replaced by whatever new farm bill is eventually approved. Neither the Senate nor the House 2012 farm bill proposals included the Direct Payments program, and those bills also would have terminated the shallow loss ACRE program introduced in 2008.

A Senate farm bill proposal, put forward by Agriculture Committee Chair Sen. Debbie Stabenow and Majority Leader Sen. Harry Reid in February 2013, would have reduced annual farm subsidy expenditures by about $2.7 billion by ending the Direct Payments program, but not the ACRE program. While the initiative would save $5 billion in outlays on direct payments, participation in the ACRE program would almost certainly increase because one barrier to current enrollment in that program has been the requirement that participating farms give up 20% of the direct payments for which they would otherwise be eligible. The CBO estimated that the expansion in ACRE enrollments would increase total spending on that program by about $1.9 billion, resulting in an annual net savings of about $3.1 billion if the Direct Payments program was terminated.

This Senate proposal would then spend about $0.4 billion a year to fund the four livestock- and tree/orchard-oriented permanent disaster programs established in the 2008 Farm Bill, but would not terminate the ACRE program. In fact, as indicated by every House and Senate agricultural committee proposal with funding for LIP, LFP, ELAP, and TAP, a new farm bill will include funding for those programs. However, while funding for LIP and LFP was unrestricted in the 2008 legislation, it seems likely to be capped at a total of about $400 million annually (as was the case in a fiscal cliff extension bill proposed by the Senate Agriculture Committee with the agreement of the Republican chair of the House Agriculture Committee) and payments to farmers would be pro-rated if total claims exceeded that amount (as was the practice with ELAP under the provisions of the 2008 Farm Bill).

The federal crop insurance program is also likely to be reauthorized without any substantive change in mandates or subsidies. Nevertheless, the recent change in the Republican leadership on the Senate Agriculture Committee, where Sen. Thad Cochran from Mississippi replaced Sen. Pat Roberts from Kansas as the Ranking Member, may have made the program somewhat more vulnerable to budget cuts. Sen. Roberts had a long history of supporting and seeking expansion of the federal crop insurance program, which has provided Kansas farmers with substantial net subsidies since the mid-1980s. Crop insurance has been less important for many Mississippi farmers who have typically received substantial payments through ad hoc disaster programs but have participated in the federal crop insurance program at a relatively low rate.

The issue that remains largely unresolved is whether any new "farm safety net" subsidy programs will be introduced. The 2012 Senate bill included a shallow loss program, Average Revenue Coverage (ARC), which would have replaced the ACRE program. The ARC would have triggered shallow loss payments when, using farm yields or county yields (the choice between them would be made by each farmer), estimated per-acre revenues fell below 89% of the most recent five-year Olympic average for a crop, with per-acre payments capped at 10% of the Olympic average.

The 2012 House Agriculture Committee bill offered farmers a choice between a much less attractive shallow loss program or a quasi-price support program called Price Loss Coverage (PLC) which set price supports at relatively high levels and were particularly favorable for rice, cotton, and peanut producers. In addition, both the Senate and House 2012 farm bill proposals offered a Supplementary Insurance Coverage Option (SCO). The SCO proposal would have allowed farmers to use a county-based area yield/revenue insurance instrument to cover deductibles associated with their multiple-peril revenue or yield insurance contracts.

Whether any of the new "farm safety net" proposals put forward in 2012 will be included in a 2013 Farm Bill is unclear, largely because the Senate and House agricultural committees do not know how much money will have to be cut from farm subsidy programs to meet deficit reduction or sequestration requirements. However, if the requirement is that the cuts amount to about $3 billion a year, then ending the Direct Payments program and keeping the ACRE program in place would leave the agricultural committees with little fiscal room for new programs.

Were the Direct Payments program to end (as is almost certainly the case) and the ACRE program also terminated, then the committees would have about $1.8 billion a year for other programs. That funding would be enough to allow the committees to introduce the SCO, but would heavily constrain their abilities to offer a new shallow loss program for major crops or a new quasi-price support program (as in the House bill). The approximately $3.4-billion-a-year cut included by the House Budget Committee in the proposed House federal budget for the 2014 fiscal year would

have relatively similar implications. Deeper cuts, on the order of $5 billion a year, would require the end of the Direct Payments program and the ACRE program, and even deeper cuts would almost surely mean substantial reductions in either conservation programs or, from a proportional perspective, relatively modest reductions in crop insurance outlays.

The Federal Budget Will Frame The Next Farm Bill

What will happen to farm subsidies over the next five years, especially with respect to new and existing risk management and disaster aid programs, all depends on the size of the budget cut number with which the House and Senate agricultural committees have to deal. Bigger cuts mean fewer programs and smaller subsidies. And once the size of the overall spending cuts is determined, the House and Senate committees still have to decide how to allocate the remaining funds among crops and regions. The 2012 House bill proposal was more favorable to Southern crops such as rice, cotton, and peanuts; the Senate bill was more favorable to Corn Belt and Great Plains crops such as corn, soybeans, and wheat (Smith, Babcock, and Goodwin, 2012). Regardless of the outcome of that allocation choice, there does appear to be a broad consensus for continuing existing disaster related loan programs and the 2008 permanent disaster aid programs for livestock, but not the SURE program for crops.

For More Information

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AAEA-0413-581