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Theme Overview: Current Issues in Risk Management and U.S. Agricultural Policy

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This *Choices* thematic issue focuses on current issues in risk management and agricultural policy and includes an assessment of important issues surrounding the ongoing farm bill negotiations. With farm bill negotiations underway, issues surrounding agricultural risk management and policy are currently front and center, and 2013 will surely be an important year for the future of agricultural policy in this country. In 2012, the Senate passed a 2012 farm bill proposal. The House Agriculture Committee likewise passed a competing proposal, however, that proposal never made it to the House floor for a vote. With a fiscal cliff looming in 2012, the farm bill negotiations stalled and on January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012—the so-called "Fiscal Cliff" legislation—within which included a provision to extend the 2008 Farm Bill until the end of 2013. Negotiations are ongoing, and the House passed in July 2013 a farm bill which stripped out nutrition programs.

Risk management issues in particular have taken a central focus in the current agricultural policy debate as the policy environment has shifted from one that historically was more focused on direct payment programs and other income support measures to one that, today, is focused more on revenue insurance-based commodity title programs with risk management as the focus, in conjunction with federal crop insurance (FCI). The FCI program has grown from a small pilot in the 1980s to what is now the cornerstone of agricultural support in the United States, and the drastic growth in this program has drawn much attention recently to the functioning and distribution of subsidies under the program. Furthermore, it is projected that the FCI program will be left as the single largest program in terms of expected expenditures under any new farm bill proposals. Given that there are a variety of proposals under consideration for the next farm bill that cover risk management activities, issues surrounding the interaction of those programs and crop insurance are of great policy interest.

There are several reasons for this shift toward a risk management focus, but chief among them is the fact that farm incomes are at an all-time high, rendering it difficult to defend direct payment and income support programs. This has opened the door for risk management programs to take a more central role in terms of how government supports agriculture in the United States, as risk management programs are arguably more politically palatable.

Articles in this Theme:

In 2012, both the Senate and the House Agriculture Committee farm bill proposals proposed eliminating current commodity title programs including direct payments, proposed creating new revenue-based commodity program options designed to cover "shallow" revenue losses, and proposed introducing supplemental crop insurance coverage for shallow revenue losses. How these programs will function, their economic benefits, and their impacts on existing crop insurance market dynamics are relatively unknown currently, and research in this area will be of great interest to policy makers and the public.

There have also been several developments on the dairy front. The 2012 House and Senate farm bill proposals each included revamped dairy support programs and a controversial supply management/control component. How these new, revamped programs will function relative to existing dairy support programs, and who will benefit, are also of great interest currently.

The first article, by Joshua D. Woodard and Dustin Baker of Cornell University, highlights and compares some important aspects of the currently competing dairy title proposals with each other and with current policy, and discusses differences in the context of who are the apparent beneficiaries of the various programs. Several observations are made that suggest that the previously front-running proposal, the Dairy Security Act—which passed out of the House Agriculture Committee in May 2013 but failed on the House floor—appears to redistribute program benefits toward states/regions with larger farms relative to the main competing proposal, as well as relative to current policy.

The second article, by Thomas P. Zacharias, president of National Crop Insurance Services (NCIS), and Keith J. Collins, retired chief economist at the U.S. Department of Agriculture (USDA) and policy advisor to NCIS, present an industry view of crop insurance and its increased role in farmers' risk management decisions and agricultural policy. Their article lays out several reasons for this increased role in farm policy, but acknowledges that the program's support and growth has engendered significant criticism for its level of subsidization and other aspects. They conclude with some thoughts on the current structure and direction of the crop insurance program.

The third article, by Octavio A. Ramirez and Gregory Colson of the University of Georgia-Athens, asks the question, "Can we do better than crop insurance?" They argue that despite persistent improvement efforts since its inception, crop insurance remains costly to taxpayers and is perceived by many as an ineffective and inequitable agricultural safety net. Their paper reviews some key criticisms of crop insurance and discusses an alternative approach based on the concept of farmer-owned crop insurance savings accounts, a recurring subject during farm bill debates throughout the years.

The fourth article, by Jennifer Ifft, Todd Kuethe, and Mitchell Morehart of USDA's Economic Research Service (ERS), investigates the use of debt by farms that use crop insurance. They suggest that the FCI program could lead to increased use of debt financing by U.S. farms through its impacts on lender and producer behavior. Using nationally representative farm survey data, they find that participation in FCI is associated with higher farm leverages and a higher probability of credit default.

The fifth article, by Thomas W. Sproul of the University of Rhode Island, David Zilberman of the University of California, Berkeley, and Joseph C. Cooper of USDA's ERS, discusses and analyzes the shallow-loss crop insurance policies that have taken center-stage in many proposals for the current farm bill. They examine the choice of deductible coverage vs. co-insurance to show that risk premiums and loss adjustment costs matter little when comparing policies and, thus, conclude that policy makers should base decisions more on costs to taxpayers than specific risk management features of alternative programs.

The sixth and final article, by Keith Collins and Harun Bulut of NCIS, likewise investigates the supplemental shallow-loss programs in the farm bill proposals, and provides a discussion of the complementarities of the programs with existing underlying crop insurance coverage. They find that the highly subsidized crop insurance supplemental revenue programs in the farm bill proposals may reduce demand for underlying crop insurance coverage at high coverage levels, and that the combination of the two may substitute for current county crop insurance plans. They also argue that, for crop insurance companies, their sales efforts would be complicated by many more farmer choices, reduced sales of high coverage levels on individual policies, and reduced sales of current county plans, but that companies would also see increased sales of both supplemental county policies and low-coverage individual policies, as buyers of current area plans shift to the new supplemental plan in combination with individual coverage.

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