Current “farm safety net” programs

Projected avg. “current” program outlays
FY2012-FY2021: $15.2 billion/yr

Commodity programs
• Direct government payment ($5 billion per year)
• Price-based payments (about $1 billion per year)

Risk management (about $8 billion per year)
• Federally subsidized insurance for yield shortfalls
• Federally subsidized insurance for revenue shortfalls

New “Farm Bill” Programs
• Make commodity programs similar to insurance (or in the case of cotton actually insurance)
Government costs of U.S. crop insurance, 2002 - 2011 (2012!?!)

Total government costs

Premium Subsidy

Billion dollars

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Deviation of nominal and deflated U.S. milk prices from long term linear trends, 1986-2011

Nominal
Deflated
The Commodity Policy Debate has been framed in terms of “safety net” and “risk management”

Old price supports and payments are worth almost nothing, so

• Crop insurance is now revenue insurance with a “harvest price” wrinkle.
• Gov. pays 60% of premiums, plus cost subsidy and “loss” repayment for insurance companies.

• Shallow loss payments are free revenue insurance (based on area yields) with coverage from say 10% to 25% losses.
• Allows ratcheting up the guarantees to current prices

• Cotton is special and is based on a projected price insurance scheme not past price averages
Dairy Policy Proposal

• Draft legislation, based largely on an NMPF proposal, that would mark significant change in U.S. dairy policy
• Proposal includes elimination of price supports and payments
• Adds free net revenue insurance
• Supply management— farm-by-farm quotas kick in when the milk price – feed price margin falls below a trigger
Aggregate Dairy Supply Management Economics

- The aggregate implications is to reduce US production when prices detail.
- In a closed market demand is inelastic, but the US is a significant exporter with a small share of the world market so over a several month horizon demand is much more elastic.
- Less elastic demand for milk fat than milk proteins, because the market is more open for proteins.
- The operation of the variable supply management plan makes the US exporters (and import competitors) less reliable suppliers for ingredient buyers.
- Implication -> lower exports in short run and long run.
The quota program affects farms differentially.

Quotas a net benefit for farms that are not expanding anyway—because they are old or tired or from a region with few long term prospects.

Quotas are a net costs for the farms that are likely to be expanding—because they are young, vigorous or in regions that have emerging advantages.

Thus the program is to the old, higher-cost, less innovative farms from the young lower-cost and more innovative farms.

We can estimate this transfer by state, by age distribution and farm size.