

FARM SAFETY NET IMPROVEMENT ACT OF 2007 (DURBIN-BROWN)

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Senators Richard Durbin of Illinois and Sherrod Brown of Ohio have proposed to replace the current loan deficiency and price counter-cyclical programs with a new farm safety net: a state level revenue counter-cyclical program. Mechanics of the Durbin-Brown proposal and key changes from the current farm safety net are discussed below. Durbin-Brown does not affect the direct payment program.

PROGRAM MECHANICS OF STATE REVENUE COUNTER-CYCLICAL PROGRAM: A farmer receives a counter-cyclical revenue payment if a state's revenue for a crop year is less than the state's revenue target for that crop year.

- ▶ State revenue target equals [(state expected yield) times (revenue counter-cyclical pre-planting price) times 90%]
 - ▲ State expected yield is the state's linear regression trend yield per planted acre for the 1980-2006 crops.
 - If a trend yield can not be established for a state, yields in similar states are used.
 - ▲ Revenue pre-planting price is the average of current and past two years Federal Crop Insurance pre-planting price.
 - Revenue pre-planting price can not increase or decrease more than 15% from the previous year.
- ▶ Actual state revenue equals [(state yield per planted acre) times (revenue counter-cyclical harvest price)]
 - ▲ State yield per planted acre equals (total quantity of crop produced in state divided by total acres planted in state).
 - ▲ Revenue counter-cyclical harvest price is Federal Crop Insurance's harvest price used for revenue products.
- ▶ A farmer's counter-cyclical revenue payment equals [(state revenue target minus state actual revenue) times (farmer's acres planted to crop) times (farmer's actual production history divided by state expected yield) times 90%]

INTEGRATION WITH CROP INSURANCE: The Risk Management Agency and Farm Service Agency are to work together to ensure that to the maximum extent practicable producers are not compensated by the revenue counter-cyclical program and Federal Crop Insurance for the same loss. Actions include the reduction of a crop insurance indemnity to avoid double payment. The latter should reduce insurance premiums paid by farmers.

COMPARING CURRENT PRICE PROGRAM WITH DURBIN-BROWN REVENUE PROGRAM

- ▶ **Revenue vs. Price:** Current programs are based on price. Durbin-Brown is based on gross revenue (yield times price).
 - ▲ A revenue program should provide more risk protection than a price program because it includes yield and price.
 - ▲ However, payments may be higher under a price or revenue program, depending on the year (does price or yield or both cause a loss to occur), the program parameters (where is the level of support set), and the correlation between price and yield (how much do they move together and in the same or opposite direction).

- ▶ **National vs. State Target:** Current programs use a national loan and target price. Durbin-Brown uses revenue targets set at the state level.

- ▲ A state program should provide more risk protection than a national program because it will reflect more localized weather anomalies, such as drought, that occur at an individual state level.

- ▲ States with greater revenue variability should receive greater revenue payments, everything else constant, under a state than under a national program. The table at left provides an indication of the variation in gross revenue across states by crop over the period 1996-2005.

- ▶ **Flexible vs. Fixed Target:** Current programs generally set program parameters for the life of the farm bill. Durbin-Brown is more flexible: the price component of the revenue target is a 3-year moving average tied to market price and payments are based on planted, not historical acres.

- ▲ Fixed targets establish a lower bound. However, they provide no risk management benefit if prices are above the fixed levels.

- ▲ In contrast, flexible targets move with the market. Durbin-Brown's level of support will increase as market prices increase. The trade-off is that Durbin-Brown's level of support can move lower, even lower than a fixed target.

- ▶ **Separate vs. Integrated Farm Safety Net:** Under the current farm safety net, crop insurance and farm support programs are separate programs. Durbin-Brown contains attributes that integrate these historically separate programs.

- ▲ Prices used to determine revenue insurance indemnities are used to determine Durbin-Brown's revenue payment.

- ▲ Durbin-Brown creates farm safety net cost efficiencies by removing double payments for the same loss ---indemnities from crop insurance and farm program payments may cover the same loss. This feature should lower crop insurance premiums paid by farmers.

- ▶ **Updated Program Yield:** By using a trend-line yield, Durbin-Brown updates program yields. This benefits crops and states with higher yields since 2002. But, program yield could decline if yields were lower since 2002.

Range in Standard Deviation of Year-to-Year Percent Change in State Gross Revenue, U.S. States, 1996-2005		
Crop	Low	High
Barley	14% (CO)	43% (KS)
Corn	9% (CA)	58% (NJ)
Cotton	23% (CA)	58% (SC)
Oats	14% (NY)	34% (WA)
Rice	23% (CA)	29% (AR)
Sorghum	11% (KS)	37% (SC)
Soybean	13% (IL)	42% (AL)
Wheat	17% (AZ)	39% (LA)