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Mixed News on Farm Safety Net

"The good news for Illinois corn and soybean producers is that, under reasonable price expectations, the current programs provide a larger safety net than those provided by past programs," said Robert J. Hauser, a professor in the Department of Agricultural and Consumer Economics. "The bad news is that this increased support creates a political risk that needs to be fully recognized when making long-term investments."

Hauser and colleagues Bruce J. Sherrick and Gary D. Schnitkey prepared the study, "The Good News and Bad News of Today's Commodity Programs," for the *Illinois Rural Policy Digest*. The full report can be accessed online at: http://www.farmdoc.uiuc.edu/.

The present loan-rate and counter-cyclical programs have two general "safety net" effects as commodity prices fall and program payments are made, Hauser explained. The first effect is to raise income beyond that which can be received in the marketplace. The second is a reduction in income variability from year to year.

Each effect was measured for the 1974 through 2001 farm programs triggered by price or income level.

"We found that the 2002 Farm Bill creates a relatively large safety net," said Hauser. "However, to the extent that the resulting income and risk-reducing effects are capitalized into land prices, it also creates a large 'political risk' associated with the potential reduction of support in future farm bills."

Farm programs traditionally addressed revenue variability in Illinois through program payments triggered by the price of corn falling below a threshold level. Revenue variability, however, is caused by changes in both prices and yield. For crop revenues from 1974 through 2001, the effect of crop price on revenue variability is much greater than the effect of yield.

"This relatively large price effect is found for both corn and soybeans," Hauser said. "When the revenue from both corn and soybeans combined is considered, it is found that corn contributes much more to the overall farm revenue variability than soybeans.

"In other words, the market revenue--market price times yield--received by Illinois corn and soybean producers changes from year to year more from varying corn prices than from any other effect."

When government payments are considered, the study found that, on average, payments triggered by lower commodity prices increased the net revenue per corn acre by about $23 per year during the past three decades. The effects of payments on soybean revenue were much less than the effects for corn because of the traditional farm program emphasis on corn and wheat.

The study shows that "there is no free lunch," Hauser added.

For instance, one obvious "cost" of the current program is associated with federal outlays. A more subtle cost, however, is the political risk associated with changes in these outlays.

"Given that the income and risk effects are capitalized into land values, a reduction in program support would arguably cause a decline in farmland values," Hauser said.

College of Agricultural, Consumer and Environmental Sciences
UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN

Source: Robert Hauser (217-244-2807; r-hauser@uiuc.edu)