



Shift from Income Support to Revenue-Based Risk Management in Farm Programs

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Changes to Commodity Title programs in the 2012 Farm Bill currently hinge on the budget decisions which will come out of the Joint Committee on Deficit Reduction's (commonly referred to as the "Super Committee") charge to come up with \$1.2 trillion in savings over the next 10 years. Existing proposals as to how cuts to agricultural programs will contribute to total savings range from \$23 billion to \$33 billion. For example, the Obama administration's proposal outlined \$33 billion in cuts to farm programs, including the elimination of direct payments and vaguely defined cuts to the crop insurance program. The recent proposal from ranking members of the both the Senate and House Ag Committees suggested \$23 billion in reductions to farm bill spending, primarily through the consolidation of existing farm programs.

Commodity organizations have recently released their 2012 Farm Bill proposals with a somewhat surprising general consensus to accept elimination of the direct payments while strengthening the farm safety net from a risk management standpoint. The National Corn Growers Association, American Soybean Association, and National Cotton Council all support revenue-based commodity or insurance programs as an alternative to fixed direct payments and, potentially, other farm programs.

The bipartisan bill from Democratic Senators Richard Durbin (IL) and Sherrod Brown (OH), and Republicans Richard Lugar (IN) and John Thune (SD) is centered on a program referred to as Aggregate Risk Revenue Management (ARRM). The ARRM program is designed to address many of the pitfalls and complexities of the mix of price and revenue supports included in the current menu of farm programs. ARRM would consolidate existing programs by eliminating direct and counter-cyclical payments while replacing the ACRE and SURE programs for program crops. These modifications have been scored by the Congressional Budget Office (CBO) to save \$19.8 billion over 10 years relative to the reauthorization of current farm programs.

Based on the current proposal, ARRM would be designed to provide crop-specific revenue protection using a guarantee based on 90 percent of the 5-year Olympic average of farm revenues. In contrast to the current ACRE program, ARRM's revenue guarantee would utilize aggregate yields at the crop reporting district (CRD) level and crop insurance harvest prices. Thus, ARRM would offer revenue protection at a less aggregate level (CRD vs. state yields) and reduce the time lag in providing payments in a given crop year (insurance vs. marketing year average prices). Further distinctions from the ACRE

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program include the need for only the operator's signature for enrollment (ARRM would be an optional program much like ACRE), and provide operators with the option for annual election rather than the irrevocable ACRE program enrollment decision.

A recent historical analysis from Gary Schnitkey at the University of Illinois indicates that the ARRM program would have generated annual payments ranging from \$20 to \$55 per acre in Illinois from 1998-2001. Smaller payments would also have been triggered in 2005. Given that ARRM would replace nearly all other commodity programs, the historical analysis suggests lower levels of average support through ARRM. However, the higher price levels experienced over the past 5 years would suggest that future support from the current price-support programs will be very minimal, while ARRM would adjust through the use of the rolling 5-year average revenue guarantee.