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Continuous Disaster Aid Programs in U.S. Agriculture: A Policy Discussion

Krista Swanson, Gary Schnitkey, Jonathan Coppess, and Nick Paulson

Department of Agricultural and Consumer Economics
University of Illinois

Carl Zulauf

Department of Agricultural, Environmental and Development Economics
Ohio State University

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The existing farm safety net for crops in the United States includes commodity programs and crop insurance. Crop insurance protects against production losses and was instituted to move away from ad hoc disaster assistance. The past five years have also witnessed various ad hoc disaster assistance programs from both Congress and USDA. For insured crops, the ad hoc assistance always raises concerns about the interactions with crop insurance. These topics were covered in *farmdoc daily* articles published on June 6, 2022 and June 7, 2022. All of this leads to questions about the considerations for farm safety net policy in the presence of natural disasters. We address this question in the following policy discussion.

Historical Precedent for Ad Hoc Programs Influence on Future Policy

For the past five crop years, Congress has authorized ad hoc disaster assistance in the form of the Wildfire and Hurricane Indemnity Program (WHIP) for 2017, WHIP Plus (WHIP+) for 2018 and 2019, and the Emergency Relief Program (ERP) for 2020 and 2021. In addition, the Trump Administration created the Market Facilitation Program (MFP) in 2018 and 2019, followed by both Congress and USDA making assistance available in response to the COVID-19 pandemic via programs including the Coronavirus Food Assistance Program (CFAP) and the Paycheck Protection Program (PPP). The substantial levels of ad hoc assistance in five consecutive years may signal potential changes to the farm safety net in the upcoming debates on the farm bill.

Since at least 1974, farm support payments have moved from one regime to another. The changes were often initiated by stress factors that resulted in a sharp increase in ad hoc payments which were subsequently incorporated into farm safety net programs (see *farmdoc daily* July 29, 2020). The prevalence of ad hoc programs since 2018, including programs specific to disaster assistance, could suggest policy makers think the farm safety net provided in the 2018 Farm Bill has real or perceived inadequacies (see *farmdoc daily*, January 7, 2021). As a result, discussion related to permanent disaster assistance is part of the next farm bill debate. An important consideration is how adding a disaster assistance program would fit within the already existing portions of the Federal farm safety net: commodity title and crop insurance programs.

The current commodity program options, Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC), can and often have provided assistance in natural disaster situations, including those that have received disaster assistance since 2017. However, response to natural disaster situations is not a direct policy objective of these programs. The primary policy objective of PLC is to provide aid when prices are low relative to fixed reference levels, while ARC provides aid during periods of low revenues relative to a benchmark defined by recent history (see *farmdoc daily* March 16, 2022). Natural disaster situations may not result in sufficiently low prices or revenues to trigger PLC or ARC payments. Hence, these programs may be perceived as not responding to disaster related losses.

The Federal Crop insurance program's design provides assistance for declines in yield or price over a crop's production period. This includes declines related to many of the same natural disaster situations as recent ad hoc disaster programs. For crops with crop insurance or non-insured disaster assistance (NAP), the Wildfires and Hurricanes Protection Plus (WHIP+) program and Emergency Relief Program (ERP) increased the coverage offered during a period of declared natural disaster. This raises the following important questions: Why does crop insurance need to be enhanced in the presence of a natural disaster cause of loss compared to a non-natural disaster cause of loss, especially given that farmers overwhelmingly purchase individual farm and yield crop insurance? Further, if additional assistance is needed, why is it not directly built into the crop insurance program?

Important Policy Considerations for Future Disaster Assistance

Congress has authorized ad hoc disaster assistance to make payments in addition to standard crop insurance coverage, to both insured crops and uninsured crops for each year from 2017 to 2021. The prevalence of these programs brings forth important considerations for the development of farm safety net policy in the presence of natural disasters. The discussion contains echoes of the SURE program created in the 2008 Farm Bill, the last standing disaster assistance program (CRS Report R40452).

1. **Loss Triggers.** With WHIP+ the loss trigger differed across producers with a requirement to be in a county given a disaster declaration to get a payment, creating a roulette wheel of sorts. Producers outside designated disaster areas, including those in contiguous counties, were required to supply documentation of direct impact by a qualifying disaster event to be eligible. For ERP Phase 1, which is for producers who had purchased crop insurance or NAP, the loss trigger will be that the cause of their loss was listed by Congress as a natural disaster cause of loss. This provision introduces the potential for substantial moral hazard in the form of pressure on those who assign cause of loss to make it one that qualifies for the higher payment from ERP.

2. **Time Lag for Payment.** Though not an issue with timelier crop insurance payments, one of the drawbacks to farm commodity programs is the delay in payments. Because those programs use a marketing year average price to calculate payment, the payments can't be calculated until the close of the marketing year. Payments are normally made about a year following harvest of the crop. In contrast, the Market Facilitation Program and Coronavirus Food Assistance Program, addressing trade-related and pandemic-related losses, made payments relatively quickly. Unlike those ad hoc programs, the ad hoc disaster aid programs WHIP+ and ERP have been much slower to get payments to producers, up to nearly two years following the disaster event even though the components of the calculation could have allowed for much quicker payments. A permanent disaster aid program is potentially, but not necessarily, a way to make payments timelier.

3. **Encourages Risky Behavior.** WHIP+ and ERP have provided expanded coverage to non-insured crops and add-on coverage to insured crops. The expanded coverage suggests the need for new insurance contracts while establishment of new add-on coverage suggests an issue with appropriate levels of premium subsidy. In an unexpected disaster situation, such modifications to coverage may have minimal influence on future decisions. However, the permanence of such a program could alter the farm level risk management approach (see *farmdoc daily*, January 7, 2021).

4. **Adequate Coverage Levels.** For insured crops, ERP offers additional coverage extending from 0% to 25% of the insurance coverage level topping at 95% of the crop's expected value. As the purchased coverage level rises, the expanded band of coverage drops. This raises the questions: What is an adequate coverage level? And should the producer or the government make the decision as to what coverage level is adequate?

5. **Duplicate Shallow Loss Programs.** Crop insurance add-on products such as the Supplemental Coverage Option (SCO), and particularly the Enhanced Coverage Option (ECO), already provide individual producers an opportunity to add additional coverage up to the 95% coverage factor in WHIP+ and ERP (see *farmdoc daily*, January 7, 2021). Thus, would public funds be better spent on creating a new permanent disaster assistance program or in subsidizing the purchase of enhanced coverage for producers with access to SCO and ECO? If the answer to this question is the latter, a new permanent disaster assistance program could focus on non-insured crops, which have been receiving an increasing share of ad hoc assistance since 2018 (see *farmdoc daily* September 16, 2020).

6. **Higher Production Costs.** All programs currently in the farm safety net are based on price or revenue, as opposed to costs or margins. Natural disasters can cause extensive damages to a growing crop and farm property that increase costs of production. For example, harvesting corn that has blown over after excessive wind may require purchase or rental of additional equipment and will proceed at a much slower pace resulting in extra time and labor. In the current period of already high input costs (see *farmdoc daily* April 12, 2022), unexpected costs paired with production losses could be a detriment. Addressing costs of production, however, presents many challenges and additional problems.

7. **CBO Baseline Challenges.** Arguably the single biggest challenge or source of questions about including permanent disaster assistance in the next farm bill is the Congressional Budget Office baseline and budget rules. In short, CBO estimates the spending by farm bill programs over ten years (assuming no changes in the law) to generate a baseline. Pursuant to budget rules, changes in the farm bill cannot exceed the spending estimates in the baseline; new spending must be offset by reductions in spending elsewhere. A new permanent disaster program would be expected to cost billions of dollars over ten years, funding in addition to the billions for Title I and crop insurance. Some programs will have to be cut in order to spend more on farmers through permanent assistance and the politics of doing so will be incredibly difficult (*farmdoc daily*, June 1, 2022).

Summary

The United States is at a critical time with many factors influencing the future of farm safety net policy. Multi-faceted use of ad hoc programs in each year of the 2018 farm bill period may indicate concerns that existing farm bill programs do not provide sufficient coverage for disaster events and other situations. Historical precedent indicates provision of the ad hoc programs may be incorporated into future farm bill programs. This is especially relevant currently, with approaching expiration of the current farm bill in 2023 and Congress already taking the initial steps towards the reauthorization debate. Ad hoc disaster programs present many challenges that would be magnified by making any version of them permanent. Among these challenges are the CBO baseline and costs, as well as the important linkages with the already existing and well-used Federal Crop Insurance program. As future farm safety net policy is developed there are important considerations given the increasing occurrence of natural disaster events.

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